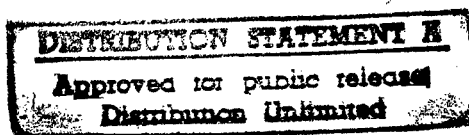


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2 APRIL 1990



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JPRS Report



East Europe

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HUNGARY

Editorial on Pozsgay's, Interior Minister Horvath's Unapologetic Attitude

90EC0307A Szekszard DATUM in Hungarian
19 Jan 90 p 1

[Text] In recent days it has happened twice that, under pressure from the opposition, chief government officials have had to retreat, in the narrow sense of the word, from their indefensible positions. Minister of State Imre Pozsgay had to give up his office as supervisor of radio and television; Police Major General Jozsef Horvath was forced to abdicate from the leadership of the internal security service of the Ministry of the Interior. Both issued brief statements which appeared in our paper. The two statements were similar in that neither gentleman acknowledged the rightfulness of the criticism voiced against him, but instead made his decision appear as if he were performing a favor, so to speak, for the sake of peace, by evading the accusations of some quarrelsome individuals. The two statements were also alike in that they both contained attacks against members of the opposition who were not sparing in their criticism.

This reminds us of the guest who is asked by the head waiter to leave because of some improper behavior, and, instead of leaving the place rapidly and discreetly, loudly smashes a glass or two.

Imre Pozsgay closed his statement with: "I want to avoid even the appearance of having my name associated with any kind of incompatibility." Well, the "appearance" of it was largely palpable as long as he undertook the supervision of radio and television in addition to his role as campaign chief for the MSZP [Hungarian Socialist Party]. Therefore, the sentence in the statement made by the minister of state in which he accuses certain unnamed "political forces and organizations" of "wishing to replace old and passing lies with new lies instead of the truth," is unjustified. Everyone knows that Pozsgay was referring to the SZDSZ [Alliance of Free Democrats] and FIDESZ [Association of Young Democrats], and that he preferred to avoid naming them so as to make it more difficult for them to rebuff the slander (because this is slander at its best).

In his own statement Major General Horvath maintained that the internal security service "had become the victim of political skirmishes." This is a distortion of the facts. The validity of written proofs which precipitated the wiretapping scandal could not be questioned, and, consequently, it can be accepted as fact from the outset and without any investigation that the internal security service acted illegally. The investigation must determine not merely this fact, but also the identity of the culprits responsible for it and the extent of the political and moral damage. Therefore, Horvath's other assertion, that his guilt had been prejudged, that is, that it was presumed to be a fact before the investigation, is also without foundation. Horvath is guilty indeed: The investigation will reveal to what extent. However, the major

general should not believe that, as far as he is concerned, the matter was closed by his resignation. It must be concluded with a criminal court decision regarding him.

As things stand, one should consider whether after improper conduct it may not be wiser to leave quietly than to throw glasses.

Confessions of a Counterintelligence Officer

90EC0290A Budapest NEPSZABADSAG in Hungarian
29, 30, 31 Jan, 1, 2, 3, 5, 6, 7, 8 Feb 90

[Article by Laszlo Vass Losonczy, ex-counterintelligence officer in the Hungarian Political Secret Police: "I Was a Counterintelligence Officer"]

[29 Jan p 7]

[Text]

1. Ears in the Ether

The nation has a right to know how the political secret police, the most efficient machinery of the post-Stalinist system, functioned, and what forces, methods, and means it used.

I was a member of that organization. I served as an officer.

The operation of a secret service, an intelligence and a counterintelligence system, is indispensable in any state. If a state—irrespective of its social system—does not have a secret service, its chances of existence relative to other states of the world are figuratively speaking those of a knife-wielding trouble maker in a tavern against a fully trained ninja fighter. This also applies in times of peace.

Counterintelligence officers still recall that orthodox Bolshevik saying, which held that the state security service was "the fist of the proletarian dictatorship." This concept was pounded into their heads for a long time. But with the passage of years, and with multiple economic concerns, fewer and fewer of these officers believed that this "truth" benefitted society. Although during the past 40 years leaders of the political system condemned counterintelligence mostly to the role of a vassal of Stalinism, only a few truly faithful communists have been found in its ranks for some time now. Because who, if not they, the state security officers, saw and experienced day after day the abuses of the narrow oligarchy of the system, its human dwarfishness, its unethical conduct? It would be mistaken to believe that state security officers did not report irregularities. They did, but they never had any decisionmaking authority.

I do not consider it to be my task to defend the honor of the uniform; on the other hand, I do not harbor passionate feelings with regard to my former colleagues either. I am presenting only the truth, while I reserve the right to make unintended mistakes.

The possession of information constitutes power. It becomes an even greater power if a person, a group, society, or the state, against whom the information is being used, is not aware of the fact that a given piece of information has fallen into the hands of the opponent. For this reason, secretly acquired information is far more valuable than open information. The acquisition of secret information is the job of the state's intelligence and counterintelligence services. Despite this fact, and even if this may sound like a paradox, most information acquired by both intelligence and counterintelligence originates from open sources. From the radio, from the press, and from the mass communication media, and especially from data banks and records used in civilian life. For this reason the secret service maintains broad relationships with every sphere of society and with public institutions, and it does so covertly in most instances. It is simple to obtain open information. This is not the case with regard to classified information, however.

Though not on a theoretical level and in the stricter sense of the term, the practical gathering of classified information must, by all means, be separated into two categories: intelligence and counterintelligence. In Hungary both the People's Army and the Ministry of the Interior [BM] operate intelligence services, while counterintelligence is dealt with solely by the BM.

Intelligence work is performed both abroad and in Hungary, while counterintelligence is fundamentally a domestic function.

Consistent with its function, the Hungarian People's Army intelligence service gathers information of a fundamentally military character. Its methods, means, and processes are more or less the same as those used in counterintelligence, although certain of its specialized elements are significantly different from methods used by counterintelligence.

Intelligence work was never my trade. For this reason I will deal with this subject only tangentially, as it pertains to a narrow area of military intelligence, only in relation to certain events that actually took place and which have recently become the subject of public interest.

In one of his televised statements the present defense minister pointed out the fact that the military leadership of the Hungarian Army provided significant assistance to disintegrate the Securitate, which constituted the main support of Ceausescu's dictatorship. It did so by conveying data received from the radio, and through the work of the radio engineering surveillance service. The data was conveyed to the Romanian revolutionary leadership.

Radio surveillance is part of military intelligence, and operates within the intelligence group command.

The methods used in radio surveillance are parts of passive surveillance. This means that radio surveillance operations remain unnoticed, because such operations

do not emit active electrical signals or impulses. Whoever is tapped in the ether by way of radio surveillance will not realize that he is being listened to. However incredible it may sound, the Hungarian radio surveillance service, which operates from Hungarian territory, is capable of determining at any time of day when, where, and what kinds of military forces and materiel are moving thousands of miles away! Radio engineering information, the accurate knowledge of the technical parameters of the radio and radio engineering equipment used by the party surveyed, and the proper surveillance of these make it possible for intelligence professionals to make error-free judgments, without leaving their listening posts, as to the kinds of troops and materiel that are operating at a given place in a given point in time. They are able to determine the meaning and nature of their actions, their attack target, their path of deployment, and many other pieces of information that are important to the military.

This is no exaggeration: During the Romanian events Hungarian radio surveillance operators were able to provide accurate information to the political leadership, just as if they had read the information from a map drawn by Securitate officers in the deepest secrecy.

I did not start my career at the BM. I was a surveillance specialist officer at the Hungarian People's Army instead. My first assignment as an officer made me part of a unit like that. I served as a deputy battalion training officer. Thus I was able to make personal acquaintances with many of the Army's radio surveillance operators and technical professionals. I still respect their compellingly high standards of professional knowledge.

Among them one finds blind persons, whose hearing is so sensitive that they can tell with 100-percent certainty if a series of telegraph signals were sent by the same person to the airwaves as those broadcast a few hours earlier from aboard a carrier in the Mediterranean.

[30 Jan p 7]

[Text]

2. They Also Infiltrated the Hungarian Socialist Workers Party [MSZMP]

BM organizations performing operational tasks function in the framework of four section commands, each with sizeable staffs, as well as within various independent divisions.

From among the four section commands, III/I gathers intelligence, III/II is engaged in special counterintelligence, and III/III deals with the so-called "internal reaction." Military counterintelligence is dealt with by III/IV. The four section commands are directed in the framework of a main section command designated by Roman numeral three, headed by a main section chief, a general, who also acts as the state security deputy to the interior minister.

Section commands are broken down into divisions and subdivisions.

The term domestic counterintelligence used by the Hungarian press relative to Duna-Gate—the wiretapping scandal—may sound good, but it was laced with inappropriate expressions that were spread throughout the world. Those are fundamentally erroneous!

For example, the expression 'internal counterintelligence' does not correspond to the section command designated by the newspapers as III/III, but has to do with the special state security service instead. Its main function is to perform counterintelligence work relative to counterintelligence officers! In other words: It protects counterintelligence personnel against infiltration by hostile intelligence services.

The counterintelligence activities complained about by opposition parties, the documents, or parts of documents made available to the public, were not produced by internal counterintelligence, but by the BM III/III section command instead, and by the operative officers and forces stationed at the Budapest Police Command [BRFK], whose functions are similar, and who deal with internal reaction.

What does "internal reaction" mean? Well, until the beginning or the middle of last year they regarded all persons, groups, associations, and the rest, who "acted against the interests of the state organization, social system, and constitution of the Hungarian People's Republic and against socialism" as internal reaction.

Accordingly, internal reaction included those who thought differently, alternative and autonomous persons and members of groupings, not to mention the populous group which prepared samizdat publications, and the urban opposition. They also came under the purview of state security organs if they expressed hostile feelings to what was then called a socialist social system. Based on applicable decrees, commands, and directives, the "company" then began to gather secret, operative information concerning their persons and activities.

Beginning in 1989 the concept of internal reaction changed. Consistent with evolving social, economic, and political reform measures, the political leadership prohibited secret service activities of the character of active counterintelligence against internal reaction, in the traditional sense of that term. It did so tacitly during the initial months of 1989, and officially beginning in mid-August. Just why these activities were not stopped will be revealed in the course of the investigation, we hope.

BM General Dr. Jozsef Horvath resigned on 17 January 1990. He said that BM section command III/III had pursued counterintelligence activities that were "neutral" from the standpoint of parties. If this is true, it would follow that they had maintained surveillance on every function and every person in each party, association, federation, and grouping of a political or nonpolitical character in Hungary.

The fact is that the flyer distribution campaign by Roland Antoniewicz was unveiled with spectacular speed by the BM. Irrespective of what BM spokesmen said at a press conference at that time, it is absolutely certain that the speed with which they acted may be credited to the continuous operation of preventative counterintelligence work!

In one of his statements Hungarian Socialist Party [MSZP] Chairman Rezso Nyers made reference to the fact that his telephone had "behaved" suspiciously.... It is not inconceivable that his hunch was correct.

Regardless of how odd this may seem, BM state security organs infiltrated the ranks of the former Hungarian Socialist Workers Party at the time it was established—the party that functioned as the omnipotent party-state. The related order prohibited the exercise of control and preventative counterintelligence only with regard to the highest leaders of the MSZMP. Controlling the members of the Politburo was prohibited; data pertaining to these persons was not released by the BM for the purposes of any record.

[31 Jan p 7]

[Text]

3. Foreign Relations

To the best of my knowledge, Soviet advisers and liaison officers operated at each section command of the Hungarian counterintelligence services. I never heard any reference to the fact that Hungarian state security officers were assigned to the section commands of the Soviet state security organ, the KGB, as advisers or liaisons.

Other than the Soviet advisers, state security officers of other nationalities did not serve as advisers or liaisons at the Hungarian section commands. Having said that, it may be a redundancy to say that the same Soviet advisory system operated in all European socialist countries, at least in countries where Soviet troops were stationed. In a manner similar to Hungary, most European socialist countries developed their own state security organs based on Soviet instructions.

Although I never saw documents pertaining to the international relations and international cooperative obligations of socialist state security organs, a number of indications and bits of information lead one to conclude that such an agreement undoubtedly exists. It is obvious that in this relation we would be dealing with a treaty administered in a super secret way, one that was consummated by the state security services and interior ministers of the various Warsaw Pact member countries. Hungarian state security organs maintained independent relations with similar services of European socialist countries; they kept one another mutually informed and exchanged information at the ministry levels. Soviet advisers departed from the BM prior to the proclamation of the Hungarian Republic.

Relationships extended not only to information exchange. For example, before the Hungarian political leadership changed directions, state security organs deported Romanian citizens who had escaped to Hungary.

The practice of returning refugees was stopped because the Ceausescu system's Securitate officers killed some of the people deported from Hungary. It should be to the credit of Hungarian counterintelligence officers, whom I may or may not know, that as soon as they learned of this fact, they purposely sabotaged the order to deport refugees by refusing to search for refugees who came to Hungary or who refused to return to Romania.... Nor did these Hungarian counterintelligence officers forward information concerning these refugees to the higher counterintelligence leadership echelons. Perhaps it would not be uninteresting to note that a number of state security officers are of Transylvanian origin, or have relatives in Transylvania.

Following the Hungarian political turnaround I just mentioned, counterintelligence officers pursued with particular passion the Securitate secret agents and officers who operated in Hungary. They wiretapped quite a few of them, though the press was not informed of these activities because of the secret nature of the business.

The linkage of Hungarian state security organs, or rather of individual (older) officers to the Soviet KGB, is well exemplified by the fact that during the Kadar era the portrait of Feliks Edmundovich Dzerzhinskiy, the founder of the VChK [All-Russian Extraordinary Commission], commonly known as the ChK [Extraordinary Commission], the first Soviet counterintelligence state security organ, was an indispensable accessory on office walls. This was true for officers who cared about projecting a good image. My former counterintelligence boss did not have a picture like that.

The high level counterintelligence school in the Soviet Union where generals receive their training, and from where a few select Hungarian state security officers graduated, was named after Feliks Edmundovich Dzerzhinskiy. Graduating from that school was part of cultivating international relations.

I have not seen Polish, Czechoslovak, or East German state security officers in Hungary. Accordingly, while the relationships between our services may have been "friendly," they were different from those maintained with the Soviets. They very rarely paid "private" visits to certain Hungarian state security officers. But what could be called a great sense of confidence between hosts and visitors never evolved. Hungarian officers acted restrained in the presence of foreigners.

An (authorized) presence of a Yugoslavian counterintelligence officer in Hungary would have been inconceivable. It was easy to figure out why. Incidentally, in the framework of one case Hungarian counterintelligence suspected the presence of a Yugoslavian "line."

It is commonly known that there were no friendly relations with the Albanians (We may talk more appropriately about a total absence of such relations for decades in terms of state security), because the Hungarian political leadership was not friendly with that Balkan state after Tirana's opening toward China.

The whole truth regarding state security relations maintained with other states is, of course, far more complex and multifaceted than the picture portrayed here. Already under Kadar the Hungarian political leadership was rather "recalcitrant" within the community of socialist countries, at least to the extent that such conduct was permissible under the circumstances, and in consideration of the international balance of power. State security service officers reacted with incredible sensitivity to the prevailing political situation, and perceived the issue of being "comrades in arms" accordingly.

[1 Feb p 8]

[Text]

4. Personnel

As we were able to learn from a statement published in the newspaper not too long ago, about one-third of the professional BM staff, i.e. some 10,000 state security officers and noncommissioned officers, are engaged in secret, operative counterintelligence activity.

The operative forces of counterintelligence—or we could say the personnel, if the other definition sounds too official—consist of officers (and a smaller number of noncommissioned officers) who function in covert and overt positions, and trained reserve operative officers.

In addition to these, there are network persons who do not pursue counterintelligence work as their profession. In official terms they are called secret operative means. Social, personal, and accidental ad hoc relations also support state security activities.

This sounds quite "Chinese," of course, to people not versed in this trade, therefore let us review one by one what each of these expressions means.

Surely everyone is familiar with the "dumb" Chalk, one of the fictional characters from Jeno Rejto's timeless works. As a reminder: Chalk was the one who, as a seemingly retarded enlisted man, a private, but in reality a counterintelligence major, discovered an African criminal organization which presented extreme danger to the French state. Well, Major Chalk can also be found at counterintelligence.... No one around them suspects that in reality they are secret BM officers. They never wear a BM uniform, and most of the time they pursue a peaceful civilian occupation. One cannot be sure if they serve in some greatly important position, irrespective of where they work: in an office, a plant, or in the military hierarchy.

Overt officers do not know who their covert colleagues are. They learn of such cases and persons only if their cover is blown in the process of a case. What else could a formerly covert officer whose cover has been blown do than to put on his uniform, and be transferred to the overt operative staff, at which time he may begin showing his real rank at last.

Covert officers are recruited to the BM staff almost exclusively from universities and academies of a civilian character, and after graduating from such schools, from so-called highly qualified professions. An offer to join this organization comes from rather high-ranking BM officers. No one but such high-ranking officers may be in touch with them in a recruiting capacity. Their training also takes place in deep secrecy.

The occupations of officers who are serving in overt positions, but who quite naturally conduct secret operative work, are known to many people around them. The fact that these persons are counterintelligence officers is no secret, but the work they perform is more classified.

Reserve operative officers are recruited in the military service from among persons who hold degrees, or who have graduated from high school. They possess low level knowledge about counterintelligence work; their level of familiarity does not even come close to the knowledge possessed by professional operative officers. In recent practice, capable enlisted men with high school degrees were selected to serve. They appeared suitable to perform secret operative work based on their political, moral, and intellectual qualifications. The institution of reserve counterintelligence officers satisfies the presumably increased counterintelligence needs in times of mobilization and war. Such work is performed in combat situations, in the framework of troop activities.

From a professional standpoint, use of the term "agent" with regard to counterintelligence and intelligence officers is mistaken. The concept of an agent represents something entirely different, as Alan Dulles, one of the "grand masters" of intelligence and counterintelligence, the former chief of the CIA, states in his book entitled "The Art of Intelligence." Agents are so-called "network persons" to be described in the following segment.

[2 Feb p 7]

[Text]

5. Recruiting Informers

Network persons are the most valuable associates in counterintelligence. These are not professional officers or noncommissioned officers of the state security service; they cooperate from outside the organization.

Network persons are distinguished from other persons who cooperate with the service by the fact that they sign an agreement that they have been recruited as informers.

This circumstance provides a legal basis in the event that they are held to account, if they intentionally unveil the "company" or themselves.

The recruitment of informers is an extremely complex, secret activity of an operative character, prepared by counterintelligence well in advance.

Quite naturally, the recruitment of informers is accompanied by training, a task performed by state security officers.

Network persons may be covert associates, authorized persons, or agents.

In their civilian environment, associates, authorized persons, are individuals whose moral character is beyond reproach and who are beyond suspicion. State security organs recruit them on the basis of patriotism; they agree to cooperate with the BM on a voluntary basis, and do not receive monetary or other compensation for their activities. As practiced in Hungary, not even the costs related to their secret activities are reimbursed by the service. They may receive (an object) of small value as a reward once a year, but more likely once every two years.

An agent is recruited to cooperate on the foundation of burden. The term 'on the foundation of burden' means that an individual who appears to be suitable to perform operative work is chosen by counterintelligence, and is then recruited by a state security officer in the investigative phase of a proceeding that pertains to a criminal act committed by the candidate, or preferably as a result of setting aside the investigation. The other basis for recruiting an agent is the fact that agents receive regular compensation from counterintelligence. Accordingly, agents are not of the highest moral character; they perform their work under fear of being caught, or on the basis of financial interest. Their operative state security training is rather low; the counterintelligence officer teaches an agent only the most needed knowledge, such as plotting and methods by which operative opportunities may be expanded. From the standpoint of state security, agents are the least reliable persons in terms of cooperation, because if they are caught or uncovered the counterintelligence officer must see to it that they cannot prove their relationship with the "company."

Informers summarily called "social relations" are not recruited. They conduct regular "friendly conversations" with counterintelligence officers, and are more or less aware of the fact that they work for counterintelligence. Their state security training is at the primary level.

A rather small number of network persons work for the company, while the number of people involved in social relations is large.

Persons designated as personal relations are not recruited as informers, moreover, recruiting such persons is strictly prohibited in the framework of state security activities. They cooperate unintentionally.

A personal relation may be even a friend, a wife, or a relative, who does not even realize that whatever he says is important. A counterintelligence officer does not familiarize his relatives with his work!

Not even a muscle in his face moves if a personal relation conveys some valuable data or fact of operative importance, without being aware of such value and importance.

One good example of ad hoc relations is a socialite who accidentally finds himself in a group of people and is unaware of the fact that a member of that group is a counterintelligence officer. The counterintelligence officer will, in the course of the conversation, filter out the valuable information by using so-called information gathering methods, and will leisurely question the talkative subject.

[3 Feb p 7]

[Text]

6. Double Agents

As mentioned before, state security services also work with network persons. They are always recruited as informers by the "company," meaning that they must sign a written commitment.

The most important requirement in recruitment is that the future network person have access to so-called operative opportunities, meaning that the prompting of such persons to cooperate must have utility. Utility means that a person like this should be working at a military, industrial, or other workplace, or should be active in a field of endeavor in which it is worthwhile to organize a network, because there is something to be protected, such as buildings or workplaces, where some potential damage could seriously endanger intellectual or material assets.

In addition to an investigation of the environment, operative measures, forces and methods (including covert operative officers), surveillance, telephone wiretapping, and mail censorship are also used in the course of recruitment. In certain instances listening devices are planted and visual surveillance is conducted in the person's room. It is very difficult to obtain permission to implement the latter regulations and means, because technical deployment is expensive and threatens discovery.

A basis for recruitment is defined after the data gathered by the covert operative forces, means, and methods becomes available to the counterintelligence officer. That is, a decision is made as to whether they

want to cooperate with that person on the basis of his patriotism or at cost, or perhaps on the basis of financial compensation.

In certain cases well functioning social relations may be reclassified as network persons. This, however, may be accomplished only if that person has never been seen in public with the counterintelligence officer with whom he has relations.

The operative officer makes thorough preparations before the actual act of recruitment. He will know by heart, virtually verbatim, all of the data concerning the prospect. Above all, the operative officer will prepare a specific tactical plan that he will use in the course of recruitment, i.e. the way the conversation is planned to progress.

There is no absolute prescription for the basis upon which a person may be recruited as an informer.

The anecdote of an odd case is spread by word of mouth in the inner nooks of the "company." A prospective network person—a South American diplomat—was having fun simultaneously with two ladies. Appropriately, the operative officer took pictures of the circumstances, which had been plotted in advance. After lengthy studies the day arrived on which recruitment was to be attempted. The highlight of recruitment would have been the operative officer's presentation of the photo series to the diplomat. But the reaction was different from what the officer expected.... The diplomat showed a broad smile, then told the counterintelligence officer to kindly provide him with duplicates of those photos. He wanted to give the pictures to his wife so that she would know that it was only at home that he was unable to perform, and that elsewhere he could....

One must be extremely cautious in a special case of recruitment called "reversal." Double agents are well known from professional literature and novels. A double agent conducts hostile intelligence or counterintelligence work, but if he is caught, the home counterintelligence reverses him, if doing so serves a better purpose than putting him to trial. Reversal means that the agent is made to operate against the service which initially recruited him. A counterintelligence officer must be absolutely certain whether the agent was really caught by accident, or if he voluntarily permitted himself to be seen by the home state security service. It is possible that such persons are dispatched as lures by the hostile intelligence service, as they say in professional terms: They offered him up. For this reason, in cases of reversal, cooperation between home intelligence and counterintelligence is indispensable, because generally only the intelligence service is able to acquire direct information concerning hostile intelligence services in an operative manner. Only intelligence officers can really look into the cards of hostile intelligence.

A recruit will be excluded if he is uncovered, but he will also be excluded if his operative opportunities cease to exist for a prolonged period of time. In some instances the

network itself requests that a person be allowed to "rest." They may reactivate him after a while....

Just what happens to network persons when regimes change is an interesting question. Well, experience shows that, insofar as the new leadership approaches this matter with appropriate political maturity, it will inherit the bygone regime's state security service network (except for some network persons whose grave criminal acts cannot be forgiven). Thereafter the network may be used for its own political and national defense purposes, just as the American and Soviet secret services took over the less compromised agents of Fascist spy services.

[5 Feb p 7]

[Text]

7. The Dossier

The most important characteristic of counterintelligence activity is the collection of classified and open information, and the thorough control and evaluation of processing of such information.

The counterintelligence service categorizes information as follows: "knowledge expanding," "valuable," and "of operative value."

Knowledge expanding information means data or fact which does not incriminate a person, but reveals some circumstance or fact concerning a person who is interesting from the standpoint of state security. The concept of valuable information represents more than the above, for example it may reveal a person's relationships or activities which may be deemed suspect, and which a person shields from his environment or from the security organs. Information of operative value includes data, facts, and actions which suggest the commission of acts punishable under the Criminal Code of Laws, or activities of a hostile character.

Based on information of an operative value it was possible to institute preliminary control or confidential investigations, dependent on the weight the data, fact, or action carries from the standpoint of criminal law. This does not mean that counterintelligence initiated control or confidential investigations in response to every piece of operative information it received. Leaders were reluctant to grant permission for these two kinds of investigative activities, which are classified in the profession. Operative officers had to provide rather substantial grounds supportive of the authenticity of the data and information received before they received a green light.

An operative officer reported in writing to his superiors about information he received. Before a report could reach the higher leadership, the assessment officer of counterintelligence subdivisions reviewed the report, and in not rare instances changed the original product of the operative officer. Thereafter the information slowly inched upward through the official channels, through a peculiar bureaucratic chain, including subdivision

assessment, division assessment, the division head and his deputy, group command assessment, the group command chief, and so on (it is impossible to describe the entire path due to limitation of space).

Many in counterintelligence were aggravated by the clumsy process. At a function organized by the group command—the conference of young operative officers—I brought up the matter that information gathered by first line counterintelligence officers reaches leaders capable of making decisions only with several days of delay, not to mention the fact that a whole bunch of assessment officers constantly return the material. They do so in a number of instances on stylistic(!), not professional grounds. I told the group chief that I was only a counterintelligence officer, not William Shakespeare.... They laughed at my statement, but the process did not change. The division head summoned me on the following day and said that my remarks were inappropriate. That's all that happened.

The idea that there are files on citizens in the vaults of the state security service is a misconception. The establishment of files was permitted only in regard to a very few people. And even then, the file had to be destroyed if the suspicion did not prove to be real. And in such cases the counterintelligence officers who took part in the investigation stood "at the edge of the carpet," in strict attention as they used to say, excusing themselves if they were able to....

Files could be established by the operative officer in charge of an area or a line only with regard to confidential investigations, preliminary control, network persons, recruited "T" apartments (apartments in which secret meetings were held), "K" apartments (apartments in which plotting took place), and "establishments" and "lines," and in every case with the permission of the upper level leaders.

Confidential investigation means the application of the highest level secret operative forces, rules, and processes. In the course of such action it was possible to utilize various means from the storage house of counterintelligence, such as listening devices in a person's room, telephone wiretapping, mail control, surveillance, and the help of network persons. I am not aware of the annual number of confidential investigations that were conducted by the "company," but the number of these very expensive proceedings must have been extremely small.

Preliminary control is a substantially lower ranked proceeding than a confidential investigation. Correspondingly, they permitted only the operation of network persons and social relations. Accordingly, in this kind of proceeding a controlled person could not be the subject of surveillance, and telephone wiretapping and the control of mail could be used only in rare instances.

In order to reclassify a preliminary control action into a confidential investigation the counterintelligence officer

had to support his request with information that suggested the suspicion of the commission of a criminal act, information that had been checked many times.

Usually the file related to a confidential investigation was destroyed after court action dealing with the criminal act was revealed.

Counterintelligence officers seldom took part in preliminary control actions and confidential investigations. Counterintelligence officers usually viewed the secret fiber they cast, gathered so-called preventative information (mostly in their heads), and conducted network maintenance and preventative activities.

[6 Feb p 7]

[Text]

8. The Meeting

State security organs used so-called open places, "T" apartments and "K" apartments, for meetings. The BM leadership provides small amounts per month to counterintelligence officers to cover the expenses incurred in such meetings—a few hundred forints. This must (should) also pay for refreshments, coffee consumed at an open meeting place, in an espresso coffee shop.

Although the term "mailbox" is not closely related in professional parlance to the meeting concept, I will nevertheless mention it here. There are two kinds of mailboxes. One is the "personal" mailbox, which (more appropriately who) could be, for example, a tobacconist or a waiter, in other words a person who could receive a message from a counterintelligence officer without calling attention to himself. Such a personal mailbox would transfer the message to his relation an hour later. A "material" mailbox could be a hollow tree abandoned by squirrels, with the help of which messages could be exchanged. People engaged in counterintelligence use mailboxes to a lesser extent; intelligence people establish such means of message conveyance.

Counterintelligence officers conduct most meetings in public places, such as in restaurants and espresso coffee shops. The reason for this is in part the shortage of physical possibilities, and in part utility. On the other hand, it is not permitted to meet with every contact in public places....

It is appropriate to meet in public places with helpers called social relations, i.e. persons who have not been recruited, because their possible discovery does not constitute a serious danger to the state security service, because "they know little," so to speak. Despite this fact it is a fundamental requirement that social relations also be protected. For this reason it is not permitted to meet such persons near their residences or workplaces, or where their acquaintances frequently appear. Preference is given to places of entertainment, where it is possible to converse in peace, in separate booths.

Organizing, or more accurately, recruiting a secret meeting apartment, a "T" apartment, requires much more work on the part of the operative officer than the organizing of a meeting to be held in a restaurant. "T" apartments are civilian apartments or premises in civilian establishments which are held "in someone's name," in the professional language, i.e. places which have a lessee or an owner. The person in whose name such an apartment or premise is must be recruited according to rules. Prior to recruitment the surroundings of the apartment must be studied by secret operative methods or means.

The state security organ seldom pays for "T" apartments. Most persons in whose names these apartments or premises are held yield their apartments to counterintelligence unselfishly, as a matter of contributing to the safeguarding of national security. The person in whose name the apartment or premise is will not be present, of course, when the counterintelligence officer meets someone.

The counterintelligence officer will teach the "legend" to the person in whose name the apartment or premise is. Counterintelligence legends are cover stories which may be used by the person in whose name the apartment is to explain to persons in his milieu just why certain persons come to his place even when he was absent. "T" apartments are used by counterintelligence officers mostly for meeting network persons.

A plotting apartment is one in which no lessee resides, or if one did, state security organs would purchase the apartment from the lessee, using a cover person. Usually the company buys vacant apartments. The cover person, called the "legalizer" in professional jargon, is one who assists the organs' workings as a network, not as an agent, but as an associate, a commissioned person. Generally speaking these kinds of people are willing to perform this kind of service on the basis of their patriotic convictions. Less frequently counterintelligence officers in covert or overt positions may also serve as legalizers. Quite naturally, in such cases they will rent the apartment with a personal identification card in someone else's name, or the company will transfer the apartment to their name as a matter of formality. In reality, of course, the officer is obligated by a secret agreement to return the apartment once it is no longer needed by the BM. (The trouble occurs when the legalizer is not willing to move from the apartment. This kind of situation has also occurred in the company's history.)

It is self-evident that the legalizer must assume a new personality in his "home," with the help of an appropriate legend.

Plotting apartments are protected by the state security organ by more than just covert operative means, of course. The legalizer must carefully watch that the position of electric and water meters corresponds with the average consumption of citizens, because the utility bill collectors weren't born yesterday.... Similarly, care must

be taken if, for example, the legalizer is an engineer or a teacher according to his "legend," so that he subscribes to newspapers and periodicals that are appropriate to his cover occupation. The legalizer does not reside permanently in the plotting apartment, because he also has another real home and a family.... It has happened that a spouse has fought with her counterintelligence officer husband for coming home at night.... Whereas all that happened was that he had to keep the light on so that the neighbors would see that someone indeed resides in the (plotting) apartment.

[7 Feb p 7]

[Text]

9. Plotted Surveillance

Observers—more popularly known by suspicious citizens as "kukkos"—are covert operative officers or non-commissioned officers. Their training takes place under plotted circumstances, usually by covering some civilian firm in an ongoing project.

According to rules, overt officers must not be acquainted with observers, and they do not meet with them. In the event that they wish to utilize this operative method, they will file an official request with the BM executive having jurisdiction. Surveillance may be used in classified investigative acts, such as confidential investigation and preliminary control, and further, in relation to the recruitment of network persons, and in the course of periodic control over "K" and "T" apartments. Surveillance is used on a limited basis because the maintenance of the surveillance organization is also expensive.

Observers are disguised in the course of operations, and they work under cover. Between two actions they stay in an office that is designated by a sign which says, for instance, "Gopher Skin and Fur Accumulation Inventory Storage...." Not too many people will enter this office because gopher skin is not a consumer good, and the gopher pelt hanging in the dim shop window that has purposely not been cleaned will scare nosy people away altogether....

"Aggressive" surveillance is a special form of surveillance. In such cases the subject of surveillance is being followed flagrantly, even in a threatening manner for the purpose of intimidation. This method makes a person conscious of the fact that the state security organ is dealing with him. They apply this means not only on foot, but also in the form of an "honor guard" composed of cars. This method is usually used with regard to persons holding diplomatic immunity.

Another special method is "countersurveillance." This is implemented usually as a matter of "point surveillance." The purpose of such surveillance is to uncover hostile observers. Counterintelligence officers request countersurveillance for themselves, for example if they suspect that some unauthorized persons are following them.

Observers stationed on streets, squares, and in apartments in a certain place try to take note of who moves at the same pace and in the same direction as the counterintelligence officer.

A covert observer who works according to a plot must not reveal himself to the person he is following. He must report the fact of having been uncovered immediately to his superior, in case that happens. Whether he may continue to work is decided on the basis of whom he was following. If he was uncovered while following a member of a hostile foreign intelligence service he will no longer be suitable to perform such work. This is because all of his activities have most certainly been documented, in pictures, for example.

It is very difficult to uncover observers who operate professionally. Their conduct and clothing are always appropriate to the circumstances, to the milieu of the person being followed. While moving around they implement self-control in many instances, meaning that, based on some logical grounds—such as turning their heads after a good looking woman—they try to see whether someone has taken notice of their activities.

The "kukkos" are extremely familiar with the peculiar features of their surveillance district, their area of surveillance. The most experienced ones are able to enumerate by heart the features of all buildings with passageways in Budapest, and of all the streets and squares.

[8 Feb p 7]

[Text]

10. I and the "Company"

After completing grade school I obtained a diploma as a machinist technician. Thereafter I worked at the State Insurance Company as a district supervisor. I wanted to go on with my studies, by all means, but due to tight financial circumstances this was possible only at one of the military academies. My first assignment as an officer was that of a radio surveillance specialist. After a few years of service with the troops, I received an offer from the BM. They were calling me to the state security organs.

The "company" preferred to select its future officers from specialized military fields in which these future officers were intended to serve as operative officers. I was assigned to military intelligence. Accordingly, my primary task was the protection of the extremely high value combat technology, as well as the assurance of the personnel's combat readiness and preparedness by way of secret, operative means. I served altogether 10 years in uniform, and then I was discharged at my request. The latter may perhaps suggest that I had some declared (or undeclared) conflicts with my bosses at the BM. The fact is that in 1981 I filed a complaint with the Supreme State Prosecutor against the then interior minister. Nine years ago my discharge—just as the departure of any state security officer from that body—was considered to be an

extraordinary event. In the end I was considered to be one who had "lost his professional conscience, and who thinks that he could be a greater success in civilian life."

I will not go into details; I had only seven forints in my pocket when I left.... For a while I made a living by selling my uniforms. These were preferred by house painters and luggage carrier coolies at the Tango, because they were made of excellent wear-resistant worsted material.

My departure condemned me to an odd period of silence. Regardless of what door I knocked on, I was viewed as a heretic BM employee, and no one wanted to hire me to fill a leadership position. They requested one or two weeks of patience....

I almost came to regret that just before my departure I had proudly rejected a BM employee who officially offered a job to me: "Sir, a mason will never become a brick!" (I said that because he recommended the pursuit of a kind of "small career" in civilian life.) But then I was hired by (an obviously and fortunately uninformed) boss at Fotaxi as a cab driver.... Thus, for not quite seven years I contributed to the core of cab drivers that hold degrees, and whose number is not to be underestimated. The "invisible hand" may have recognized that a leadership position as a cab driver would be sufficiently insignificant for me to make a living. Thus I diligently and happily turned the steering wheel.

Two years ago a newspaper editor invited me to become his associate. Since then I have changed my career. I have become a journalist. I was 38 years old last year when I first visited a Western country, Austria.

Have I kept in touch with state security organs since my discharge? This is a fair question, because I have conveyed some recent information in these paragraphs, things that are not publicly known.... The truth is that I became involved in the underground struggle against the Securitate. At first a known Transylvanian poet who escaped to Hungary found me, and not much later a skilled worker friend of mine from Transylvania looked me up, so that I informed the authorities about the Securitate's operations in Budapest. I did what they asked me to do, even though I am unable to provide names, because certain elements of the disintegrated Securitate continue to possess a certain potential.

In addition to the above, I acquired some of the recent information from my former colleagues by using the "mosaic method."

I was not a democratic resister. The fact is that well before the party split I tore up my ties to the MSZMP of those days.

Except for an approximately 2,000-volume library, all of my assets are on me, if that does not sound immodest. I did not acquire a fortune during the Kadar era; I reside in a 31-square-meter rented apartment in the suburbs.

As a party-outsider I would like to see a republic in which opponents struggle with each other using only clean, legal means in the arena of public life.

Pet Nitrogen Sold to Hungarian Consortium

Confusion Surrounding Swiss Purchase

90EC0327A Budapest HETI VILAGGAZDASAG
in Hungarian 13 Jan 90 pp 70-71

[Article by Pal Reti: "Another Fiasco at Pet: Endgame of Errors"—first paragraph is HETI VILAGGAZDASAG introduction]

[Text] Pet Nitrogen Works is under a curse. The second auction that was organized to sell the enterprise also proved to be a hoax. The winning bidder, BVK [Borsod Chemical Combine]-Saurer, a Hungarian-Swiss team, failed to place their downpayment by the deadline and failed to give a bank guarantee for the remainder of the purchase price. Now the gigantic factory has practically fallen into the lap of the second bidder, the consortium lead by Chemolimpex and the Hungarian Foreign Trade Bank (MKB), still considered a favorite at the late November auction—that is, if it still wants the factory at all and is willing to pay for it.

During the past two years each and every assumption regarding the future of the chemical fertilizer manufacturing giant has proven to be erroneous, and even the contrary of each assumption has proven to be incorrect. It was a mistake to believe that the financial rehabilitation that began in January 1988 would be completed within the legally stipulated three, or at most six, months by signing the economic recovery agreement concerning the enterprise, but it was also incorrect to believe that, after an unsuccessful government financial rehabilitation, the enterprise would—again, according to legal provisions—be liquidated. It was a mistake to believe that the State Planning Committee, still in existence at the time, hindered the liquidation because it had some kind of concept regarding the factory's future, but it was also a mistake to believe that since there was no such concept, at least no more money would be pumped into Pet's bottomless barrel. It was a mistake to believe that the director of the enterprise who piled blunder upon blunder, would be summarily dismissed, but it was also a mistake to believe that at least when, after 15 months of financial rehabilitations, the chief, who had previously torpedoed every viable solution, was let go after all, something would finally happen.

It was a mistake to believe that, in the wake of the liquidation that was ordered last August, Pet Nitrogen Works was put up for auction on 30 October, but it was also a mistake to believe that it was good that buyers were not allowed to bid, because next time other entrepreneurs, seeing more possibilities in Pet and also willing to pay a higher price, will surely emerge. Finally, it was a mistake to believe that the Swiss-owned Saurer Holding,

teamed up with Borsod Chemical Combine, would purchase Pet Nitrogen Works at the second auction, held for the same bidders on 27 November, for it was reported in the daily news on 3 January that the Swiss firm backed down from the deal, but it was also a mistake to believe this, for Saurer refuted that report on the following day....

The observer can do nothing at this point but provide background information for further—no doubt erroneous—assumptions.

Following the second—supposedly successful—auction, the Trusteeship Organization on 30 November signed an agreement with NEW Company, registered the previous day at the Court of Registration; according to that agreement, the joint company founded by the Swiss-owned Saurer Corporate Finance, Incorporated and Borsod Chemical Combine, with a 50-50 percent share and a 10 million forint capital stock, had to appropriate 700 million forints to the Trusteeship Organization within 10 banking days and provide a bank guarantee for the remainder of the 1.75 billion forint purchase price of Pet Nitrogen Works. In the event that NEW failed to meet these conditions, the Trusteeship Organization, which for its part assumed the obligation to continue operating (i.e., to not allow a “cool down” or freeze) the factory until the end of December, would be entitled to sell Pet Nitrogen Works to anyone else.

On 15 December, the Trusteeship Organization called upon Saurer, representing NEW Company, to meet its financial obligation, up to that time in default, by 20 December at the latest. Saurer continued to balk, but then on 20 December informed the Trusteeship Organization that NEW Company would rent Pet Nitrogen Works for five months, beginning on 1 January. Subsequently, the Trusteeship Organization “drew the consequences,” and, since the Chemolimpex-MKB consortium on 2 January confirmed in writing the 1.6 billion forint offer it made at the November auction (i.e., before the bidding), notified Saurer on that same day that it considered their agreement to be void.

Saurer-representative Adrian Niggli told HETI VILAGGAZDASAG that Saurer did not back down and that negotiations “are continuing.” It remained unclear with whom, because representatives of the Trusteeship Organization have not met with the Saurer people since 3 January.

Incidentally, according to bank sources, Saurer is well known in the field of “company acquisitions,” and is considered a dependable firm, free of debts. In the possession of incomplete and often contradictory information, it can only be conjectured why it failed to meet its contract obligations this time. According to Niggli, his firm’s main concern is that no western banker willing to finance a business in Hungary could be found in December, in view of the dallying talks with the International Monetary Fund and the uncertainties regarding

the budget’s acceptance. Bank sources corroborate that this uncertainty also affected other business relations in December.

Saurer’s other main disappointment was that, while information received earlier from Borsod Chemical Combine assured the company that Pet Nitrogen Works, after last year’s losses amounting to 300 to 400 million forints, could be operated this year with a zero balance, the experts at Pet indicated that losses amounting to 400-500 million forints must be expected again this year. The effectiveness of this argument is diminished by Saurer’s third reason, namely, that the recent increases in energy prices and “the instability of the Hungarian economy” came as a “surprise.”

At any rate, the Trusteeship Organization has already come to an agreement with the runner-up bidder that if the Chemolimpex-MKB consortium remits 10 percent of the purchase price—i.e., 160 million forints—by 16 January, then the sale of Pet Nitrogen Works to the aforementioned company will be contracted this month.

With regard to Saurer’s “penalty,” the firm has lost nothing yet in the “game” for the time being, because—unlike institutions that are more experienced in auctions—the Trusteeship Organization required no downpayment from any bidder. Now, however, it will demand that the Swiss firm pay the difference between the price it assumed and the actual price, as well as the interest that the Trusteeship Organization paid on current assets during Pet’s operation in December.

After these events, it is probable that the consortium, respectably maintaining its earlier offer, will acquire Hungary’s largest chemical fertilizer factory, but it is also possible that the Swiss firm still has something up its sleeve. What is most likely, however, is that nothing is certain.

Hungarian Consortium Takes Over

90EC0327B Budapest HETI VILAGGAZDASAG
in Hungarian 3 Feb 90 pp 7, 8

[Unattributed article: “Pet Nitrogen Works Sold”]

[Text] After two years of financial rehabilitation, and then liquidation, Pet Nitrogen Works was sold on Monday for 1.6 billion forints. The buyer was Nitrogen Works, Limited, whose founding charter was signed two days before the purchase agreement by representatives of the State Development Institute, the Great Plains Oil Refining Enterprise, the National Commerce and Credit Bank (OKHB), the Hungarian Foreign Trade Bank (MKB), Mineralimpex, and Chemolimpex, and its two foreign subsidiaries, Interchemol and Inchemtrade. Backed by a bank guarantee, the consortium, lead by Chemolimpex, agreed to pay the 400-million-forint first installment of the purchase price by 12 February, and the remainder in five subsequent installments, to the Trusteeship Organization which handled the liquidation. For the time being, three persons have been appointed as of 1 February from the

11-member board of directors of the chemical fertilizer factory, which is already under the new owners' management: Laszlo Kovacs, deputy director General of Chemolimpex; Gabor Agoston, executive director of Inchemtrade; and Gabor Kelenyi (included in the document of transfer), the former secretary general of the

Hungarian Economic Chamber, representing the National Commerce and Credit Bank and the Hungarian Foreign Trade Bank. The new management has no strategic concept yet regarding Pet's future. A two-year program is expected to be drawn up by the end of April, and a long term program by the end of September.

GERMAN DEMOCRATIC REPUBLIC

Labor Union's Reforms Leave Control Apparatus in Place

Changes Viewed as Merely Cosmetic

90EG0190A Bonn DIE WELT in German 3 Feb 90 p 2

[Article by Thomas Linke: "FDGB Wants To Control Freely Elected Delegates"]

[Text] The scene had symbolic character. In the Grand Hall of the GDR's magnificent "Palace of the Republic" building you could have heard the proverbial pin drop. At the podium the haggard interim chairman of the Free German Labor Union Federation (FDGB) was reading Minister President Modrow's declaration of unity, most of the delegates sat stony-faced in the rows of seats. The change in the tides was once again passing GDR trade unionists by.

From the newly elected FDGB leadership there was not even one official statement on the occasion of its own leader's press conference. Not even any debate was allowed. No matter how quickly the GDR trade unions want to shed their old skin, the thinking of the old cadres weighs down on them like a millstone in their efforts to move forward. The 2,500 delegates have indeed freshened their makeup: new chairmen, new by-laws, action program, and trade union law. Yet much of the old face of the once so powerful FDGB is visible under the make-up.

Along side the state apparatus and the SED [Socialist Unity Party of Germany], the FDGB was at one time the third pillar of the system. Always loyal at the side of the "governing" SED. In practice every worker was a member because the FDGB meted out jobs, vacation sites, and social services. This amounted to almost 10 million dues payers. Powerful FDGB fractions, mostly with the correct party book in their pockets, sat in the People's Chamber, in the kreis congresses and city council meetings. Of course, the FDGB has now lost 1 million members, yet there are still 8.6 million names on the rolls—in spite of corruption and criminal manipulation by the old guard.

The FDGB's bloodletting and loss of power is relatively more modest than that of the SED and the bloc parties. The social influence of the GDR trade union continues to vastly exceed the order of magnitude which exists in Western democracies. And things are to stay that way, in any event if the trade union law which was developed by the FDGB itself (!) is actually adopted by the People's Chamber.

Influence restricted to the preparliamentary arena is no longer in evidence. Rather, the trade unions want an extensive veto right for laws which are passed by parliament: the trade unionists as quasi supreme censors of the freely elected delegates. And if the People's Chamber does not plan to deprive itself of its political rights by

accepting the law by 18 March, the FDGB is threatening a general (political) strike. This is ultimately legitimized in the bill.

The convulsive clinging to its assets continues at the enterprise level. The bill calls for access to enterprise files and also a far-reaching veto power on management decisions. This is in keeping with the old theory. By getting rid of private ownership theoretically there was identity of interests on the part of all members of the union, in theory the enterprise belonged to every worker. That is what makes access to their "own" files and the right to veto management decisions logical.

Yet it is because of the old theory that the entire system and the whole country are languishing. The exhausted economy can only be rebuilt by having companies step in which were developed out of the private sector. Yet what Western entrepreneur should get involved in a joint venture if this trade union law is the basis for it? The Modrow government is struggling to improve the investment climate. But the FDGB would much prefer to completely turn this around. In order to preserve its own power, fear slogans threatening mass unemployment and social collapse are being spread. Naturally, no trade union other than the FDGB itself fits into this design for preserving an existence.

Until now, by virtue of its enterprise trade union organization (BGO) in every company, it had a trade union monopoly. That, too, is to stay the way it was. There are warnings against enterprise councils like those in the West. For then there would theoretically be competing trade unions.

Without a doubt the extraordinary FDGB congress produced forward progress. This applies to the formal separation from the SED which is, of course, wasting away. This is also true of the organization in an umbrella group with individual independent trade unions. There continue to be doubts about the renewal of personnel. But it is certain that the delegates cannot change their spots with respect to the program. And no one asked what was to come of all this after reunification. Two trade union groups West and East? Or a DGB [German Trade Union Federation]—with such Eastern cadres?

Union Considered Incapable of Reform

90EG0190B Frankfurt/Main FRANKFURTER
RUNDSCHAU in German 5 Feb 90 p 2

[Unattributed article: "Initiative Also Wants Western Wages and Work Hours in the GDR"]

[Text] On Saturday evening in East Berlin an Initiative for Independent Trade Unions (IUG) endorsed the establishment of an independent trade union in the GDR. According to the existing "current program plan" the IUG's goal is to represent the "economic, social, professional, and cultural interests of its members." The understanding is that this is "oriented toward being basically democratic."

The IUG is being supported from West Berlin by the German Salaried Employees Union (DAG) in respect to office equipment and implementing print orders. One of the Initiative's spokesmen, Achim Huertgen, said that "this cooperation is in no way connected with any targets." In connection with the meeting, DAG's Federal youth leader Mark Roach said: "We want to support the formation of trade unions which are in fact free of the SED and the state and which represent the interests of the membership in the wake of autonomy in negotiating wage rates and specific enterprise work."

In this connection Huertgen characterized the Free German Labor Union Federation (FDGB) which to date has been dominated by the SED as "incapable of being reformed" and expressed his disappointment about the FDGB's "support" by the German Trade Union Federation (DGB): "As long as the DGB supports the FDGB, it will also support the latter's structure of functionaries: 'As long as that is true, we do not want to be linked together in any way.'"

In view of an emerging economic alliance between the FRG and the GDR the IUG is demanding an increase in wages and salaries for workers and salaried employees "to a level equal to Western wages" and "shortening the work hours which affect the week and life." Moreover, it advocates a firm statement in the new GDR constitution about the "right to work," for social security for workers who are dependent on their employment and for comprehensive codetermination "in affairs which concern the enterprise and overall social conditions."

The meeting of 72 working people from about 50 enterprises established a founding committee which currently has 13 members by virtue of a majority of 53 in two votes with one abstention; the committee is to develop program and by-laws drafts and implement networking of the bezirk coordinating offices. At present representatives from six bezirks, namely Gera, Potsdam, Dresden, Erfurt, Neubrandenburg, and Berlin, are represented in the founding committee.

The IUG consists of advocates of basic initiatives and interested individuals from about 170 enterprises. Even delegates from the FDGB congress support the Initiative.

A second preparatory meeting is planned for the end of February or the beginning of March; amendments to the by-laws and the program are to be worked on then. The meeting is presumably to be held in Dresden.

HUNGARY

Infrastructural Development: Minister's U.S. Trip Report

90EC0341C Budapest NEPSZAVA in Hungarian
31 Jan 90 p 4

[Interview with Andras Derzsi, minister of transport, communications, and construction, by Jozsef K. Horvath, place and date not given: "Will Our Desires Grow Wings?"—first paragraph is NEPSZAVA introduction]

[Text] Andras Derzsi, the minister of transport, communications, and construction, arrived from the United States the other day with something noteworthy in his luggage: a \$300 million loan from the World Bank for the telephone network's development, and the prospects of a Boeing deal which would enable MALEV [Hungarian Air Transport Enterprise] to bring its obsolescent fleet up to modern aviation standards. But what many people find interesting is that there is nothing particularly new in the luggage, at least as far as the telephone network is concerned. The minister had spoken with self-assurance about that program last October, emphasizing that within three to five years there would be two million more telephones in the country, and the waiting time for a telephone would be shortened from 12 years to six months. By comparison, the minister has just returned from the United States, but still with only the promise of another loan, which can be expected to be finalized only in February or March.

[NEPSZAVA] In light of all of this, were you not too bold, or perhaps reckless, in making your statement last October? Or are you that confident of your ability to foresee the future, even now when the international situation and the domestic political situation are changing almost daily?

[Derzsi] Implementation of such a program requires essentially three things: a legislative framework, money, and suitable technology. The postal service's transformation did not just begin today. The Postal Law has been amended, paving the way for the newly formed Telephone Enterprise's conversion into a corporation by midyear. Which means that the telephone network will have a specific owner, and it will be possible to attract investment from abroad. Our foreign partners, including the World Bank, were skeptical about our ability to successfully accomplish this much. Well, we have succeeded. Now the next phase of our work, putting the financing together, can begin.

[NEPSZAVA] Your October statement evidently relied on some foreign capital. In what stage were the negotiations then?

[Derzsi] We knew that the telephone network is good business, if it can be based on market forces. There were negotiations with the World Bank last year, but on the basis of a strategy that reckoned with substantial state aid, and that is why the talks broke down. We presented new concepts when the talks resumed, and our goal has been to come to an agreement as soon as possible.

[NEPSZAVA] What is the price tag of the entire program for the telephone network's development?

[Derzsi] An estimated \$6 billion, compared to which \$300 million from the World Bank seems like merely token assistance. At the same time, the World Bank is also reviewing our program, finding it sound and feasible. The World Bank's stamp of approval and its financial assistance are also extremely important from

the viewpoint of gaining the confidence of further investors. As a corporation, the Telephone Enterprise will be controlled by a majority of Hungarian stockholders. There are inquiries about the conversion from many large banks and telephone companies, including Bell Atlantic, the largest regional telephone company in the United States. I also held talks with representatives of Bell Atlantic about that company's possible participation.

[NEPSZAVA] How much of the \$6 billion would the government have to foot?

[Derzsi] About 10 percent. The state will have to act as the customer mainly in less-developed regions where otherwise operation would not be economical.

[NEPSZAVA] But the loan from the World Bank is still only a pledge for the time being.

[Derzsi] The agreement can be expected to be signed in March. Then the search for partners as stockholders in the future corporation can begin, parallel with inviting tender offers from equipment suppliers once the corporation has been formed.

[NEPSZAVA] The National Assembly's pertinent committee is not as optimistic as you are, and the postal service's original plan for the telephone network's development has a horizon of 10 years, rather than three to five years. In other words, there appears to be a sharp discrepancy between the minister's concept on the one hand, and the views of the parliamentary committee and postal experts, on the other hand.

[Derzsi] Indeed, some people do regard the above plan as too ambitious. But it should be clearly seen that the 10-year program was based on an entirely different strategy. Its aim was to establish a full range of services in all regions or counties within the country, one by one. But that could not be financed even over 30 years, let alone 10. The 10-year program relied predominantly on state financing, and we all know how empty the state's coffers are. The recent talks again convinced me that the dynamic program, in which the domestic telecommunications industry could also participate, can be implemented in three years, and then we would be able to forget about our telephone problems.

[NEPSZAVA] The indications are that at present you personally are the program's only guarantor. But it is by no means certain that you will retain your ministerial seat after the elections. And what will happen then? Another minister, a new concept, and further slippage in the domestic telephone network's modernization?

[Derzsi] I do not think that a single person's identity can be of decisive importance in a matter of this nature. I believe that our programs—and not just the one for the telephone network's development—will fundamentally help to transform the Hungarian economy. The programs we have scheduled are the bare minimum and must be realized unconditionally; we could only do

more, not less, under suitable financial conditions. I am confident that the new government will be able to act in this direction.

[NEPSZAVA] You held talks with Boeing's president, obviously on the possible procurement of planes. To our knowledge up to now, domestic civil aviation's modernization was to have been open to competitive bidding. But now you have sat down to negotiate with the head of the company that is the world's biggest manufacturer of passenger planes.

[Derzsi] There are two things that must be distinguished here: talks about MALEV's privatization in the interest of making the airline more competitive, and replacement of the domestic fleet. For privatization we are seeking—very thoroughly and in complete agreement with MALEV—a partner that can inject additional capital and help us expand our market. Recently we concluded very liberal aviation agreements with the United States, South Korea, and the FRG, in the spirit of preparing for the great changes in Europe in 1992. Thus it is inevitable to make MALEV more competitive. In the world there are only six to eight firms able to carry out such a privatization and to find a suitable partner. We have sent them invitations to tender and are now awaiting their offers.

[NEPSZAVA] But are you planning to solve the modernization of our fleet of aircraft essentially without competitive bidding by plane manufacturers?

[Derzsi] Yes, partially because there is extremely excessive demand for aircraft. The capacities of the two biggest plane manufacturers, Boeing and McDonnell Douglas, are tied down until 1995. The Soviet civil aircraft industry, which ranks third in the world, is unable to satisfy even its domestic demand. Relying on our favorable experience with the three Boeing planes we have, we in essence have decided to use this make in the long term. Considering that MALEV will have had to scrap 14 Soviet-made planes by 1995, and that new passenger planes will be needed in 1991, we requested Boeing's management to give our order some priority.

[NEPSZAVA] Do we have the money to make a request like that?

[Derzsi] We argued that our country has a lead of a year or two in operating Boeing planes in Eastern Europe, and that we have also decided to lease Boeings. Thus our country can become the hub of air service in the region, and can help Boeing penetrate the Soviet and the Polish markets. Boeing's management is supporting our plans and will also help to finance subsequent purchases of planes. Incidentally, in the early 1980's we had an excellent opportunity to buy Boeings, on terms far more favorable than at present, but the Politburo of the day decided against it.

[NEPSZAVA] From the air, let us return to earth. As transport minister, what is your opinion of the strikes that the transport workers staged?

[Derzsi] The strikes were organized essentially for higher wages. I think that the truly existing wage disparities must be removed by all means, and that such a demand is justified. In our present economic situation, however, no one can seriously expect the lag that has built up over a period of 15 to 20 years to be resolved with one stroke. The demand for wage parity in this form cannot be met, and therefore I regard it as unethical. This year's budget, tacked together at the price of exceptional compromises, could not tolerate an additional burden, even smaller than this one. It is an entirely different matter that, in my opinion, the enterprises in question have very substantial reserves. But because both the MAV [Hungarian State Railways] and the BKV [Budapest Transportation Enterprise] are huge organizations, the changes can be implemented only with great circumspection. This work is already in progress. Meanwhile, on the basis of a crisis plan, the enterprises are creating funds for wage increases by cutting back on their modernization. The promised foreign loans offer hope that, within two or three months, it will be possible to again review the most urgent, but now shelved, modernizations and investments for the railroad and municipal mass transport, and to decide whether to go ahead with them.

[NEPSZAVA] REFORM published a list of the future government's composition. You were not included in it, but the transport minister was the only one not identified by name. All we could learn is that, according to the compilers of the list, the portfolio would go to the Smallholders. Are you a member of one of the Smallholders parties?

[Derzsi] I am a nonpartisan.

[NEPSZAVA] Have none of the parties contacted you recently to inquire whether you would be willing to stay on as the head of your ministry?

[Derzsi] No one has contacted me so far in this matter. We are determined to ensure continuation of the ministry's ability to function and to try to retain the ministry's good experts, even amidst the present uncertainties, but this is becoming increasingly difficult to do. If the ministry gets a new head, we of course will be willing to give him maximum assistance at the start.

[NEPSZAVA] Do you consider yourself to be a politician or a technocrat?

[Derzsi] Primarily a technocrat.

[NEPSZAVA] It is being rumored that the future belongs mainly to ministers who are politicians.

[Derzsi] Expertise is never dispensable. But we will soon see what the future has in store.

Highlights of International Blue Ribbon Committee Meeting

90EC0332A Budapest FIGYELO in Hungarian
25 Jan p 3

[Article by Marton Tardos, committee cochairman and SZDSZ [Alliance of Free Democrats] economic adviser: "Blue Ribbon in Indianapolis: Recommendations for the Republic's Future Government"—first paragraph is FIGYELO introduction]

[Text] The International Blue Ribbon Committee held its first meeting in Indianapolis, in the second week of January. Formed on the initiative of a few Hungarian citizens, the committee is made up of domestic and foreign experts and politicians. With the help of additional experts, the committee is attempting to clarify the opportunities and tasks that the country, and its government elected by a free parliament, will face after the elections. The author of this article is the committee's Hungarian cochairman. He offers us a glance at some of the highlights of the meeting.

If the experience gained at the meeting is anything to go by, Hungarian citizens are not alone in their concern for the success of Hungarian society's expected transformation. The entire world and its economic and social policy experts are rooting for Hungary, the country in Eastern Europe that has been more successful than the others in escaping from the forced trajectory of the party-state and a centrally planned economy.

On What There Was Complete Agreement

After this meeting, the first in a series of meetings, there was general agreement on at least three further points of departure. Firstly, that the consequences of the party-state's development, and of nationalization and collectivization, have hampered society's development, are difficult to reverse, and are now posing serious obstacles to free transformation by impeding the efforts to put in place the prerequisites for economic success and to encourage the development of business behavior on a wide scale, in a country that has been late anyway in adopting a bourgeois mentality and slow in its progress toward a market economy.

Secondly, that although the economic reforms bogging down halfway did have the favorable effect of reviving business interest, in many areas they also undermined the chances for further progress and have been unable to establish strict market requirements. Consequently, a large part of the economy—mainly the state sector and the sector of large cooperatives—is continuing in its failure to respond suitably to consumer demand. None of the players in the economy—i.e., the state, cooperative enterprises, and private businesses—are striving to develop business strategies that would ensure stable economic success. Instead, contrary to the country's interests, everyone is aiming for disposable personal incomes that can be withdrawn from circulation in the economy. The difficulties were further aggravated by the

party state that feared the loss of its power to the market, but also wished to avoid power conflicts. When it realized that from unsuitably developing domestic output it was unable to supply, or even to stabilize, current personal consumption in accordance with demand, the party-state presumed to cover the shortage of resources through foreign borrowing and not to prevent the erosion of national wealth, particularly of the service sector's capital.

Finally, there was also agreement that the ingenuity and entrepreneurship which Hungarian citizens have been displaying in recent years, and which they are continuing to display at present as well, are the basis upon which the country's rise must be founded. Hence, the causes of the half-successes, distortions, and very short range objectives of the ventures to date—in other words, of the shortcomings of development in recent years—must be sought in the mistakes and inconsistencies of the previous governments' reform policies, rather than in the low level of the Hungarian workers' creative ability.

From the above factors it unambiguously follows that the newly formed government will face exceptional difficulties as well as great opportunities, because the previous governments and economic management not only destroyed the economy's potential, but they also neutralized in such a way the unfavorable effects of the destruction that the difficulties will fully emerge only later, i.e., after the new government takes over.

First 100 Days

As I have indicated, the committee has only just begun its work. Therefore its recommendations have not evolved as yet. So far the committee has drafted working papers covering five topics: alternative ways of transforming the system of ownership; the institutional foundations of an effectively functioning market and system of economic competition; radical changes in Hungary's position within the international division of labor, and thus in its economic relations with East and West; the possibilities of stabilizing the economy with the tools of monetary and fiscal policies; and management of the social tensions resulting from the measures that will have to be adopted in the course of transformation.

In addition, the committee is devoting great care to exploring how public confidence in the democratically elected new government can be further enhanced while it performs its difficult duties that cannot be solved without the acceptance of conflicts. For this reason, among others, a separate paper is being drafted outlining the new government's tasks during its first 100 days in office, and on how to present a progress report to the country after that period so as to gain support for the government's program.

The draft program places great emphasis on the need for a radical break with the past. The non-Hungarians on the committee encouraged the Hungarian experts to introduce proposals, novel even in comparison with their own concepts regarding the curtailment of the state's role in

the economy, and to concentrate on establishing stable economic conditions based on statutes. Thus, statutes must strive to curb trade monopolies and to promote the rapid spreading of free prices. Both state and private enterprises must have greater freedom in deciding how many people to employ and what wages to offer them. For its part the state must direct its efforts toward preventing the liberalization of prices and wages from unleashing inflation. A prerequisite for this is that the enterprises themselves decide—under pressure from the money markets and on the basis of their own profits, liquidity, and prudent cost management—what prices they are able to accept when negotiating their procurement, with due consideration for alternative sources of supply, and what demands for higher wages they can afford to meet. The proposed liberalization can be successful only if the country's monetary system is radically transformed. To this end, neither the state budget nor the banking system may offer backdoor financing for the survival of insolvent enterprises; and both must prevent enterprises from finding loopholes in the mutual accumulation of debts, from letting their banks hold up payment orders pending sufficient funds. The pressure to maintain liquidity can become effective only if the threat of bankruptcy is real. The foreign experts were unanimous in their criticism of Hungary for being proud of having introduced a bankruptcy law on the one hand, while failing to apply in practice the tools this law offers, and to prevent efficient enterprises from tolerating the insolvencies of their partners, on the other hand.

In conjunction with layoffs, the state must direct its efforts toward achieving greater labor mobility. Primarily the creation of new jobs will be the suitable solution for those who become unemployed. In terms of lowering unemployment, the effects of job creation can unfold when information about new jobs spreads rapidly, and if retraining for the new jobs is also available when necessary.

While the foreign experts felt that a stricter system of capital requirements was essential to influence enterprise behavior, they also stressed that the other side of the coin must not be forgotten, either: the interests of consumers and workers, which must be safeguarded by putting in place the legal framework for the freedom of association.

Privatization

According to the view that emerged from the discussion, the legal framework can become effective only with the transformation of the system of ownership. Everyone agreed that the most successful road to privatization was to strengthen the existing private sector and to promote the founding of new businesses. In addition to providing equality under law, the private sector's development requires primarily changes in the small businesses' opportunity to import, as well as in their access to raw materials. The private sector does not have to be given any preference in this respect, but the application of

equal conditions must be enforced. In financing, however, the small businesses will need a wide range of preferences, over and above the stability of regulations applicable to all businesses. That is unavoidable even in developed Western economies, because everywhere the banks—in order to reduce their own risk—are giving preference to capital rich firms, and that must be offset in the interest of reviving the economic structure and enhancing its adaptability. This is true increasingly in Hungary, where only the appearance of small businesses and new medium sized firms will create competition in the marketplace.

There was extensive debate within the committee on the state sector's privatization. Sir Alain Walter, the British Government's chief expert on privatization, outlined Britain's experience. First, the British Government attempted to restore the state enterprises' financial discipline, through rigorous measures. Then came the second stage: selection of the enterprises for privatization, and the hard work of decentralizing them and making them attractive to investors. Real privatization was only the third stage.

We certainly will be able to use the British experience directly when deciding to privatize the state monopolies producing basic materials or providing certain infrastructural services. However, such plans have not yet been included, or have been included only exceptionally, in the program to transform the Hungarian economy. But it is debatable whether the British experience can be applied to most state enterprises in manufacturing, construction, and trade. Such enterprises were practically never, or only exceptionally, nationalized in the West. Hence the practice of successful privatization in the West has always been limited to a narrow segment of the economy, and privatization has always been implemented by governments with strong majorities that could easily cope with the tasks involved.

In this respect, then, the situation in Hungary differs radically—or at least will do so in the immediate future—from the experience of other countries. Privatization in Hungary will have to include the bulk of manufacturing, construction, and trade, because almost all of the functioning capital in these industries is in the hands of state enterprises, or of large cooperatives that operate in the same way as state enterprises. Ever since the issue of privatization was raised, these enterprises have been feeling uncertain and insecure, which further worsens their effectiveness. Therefore, we may conclude that under our conditions, where a large proportion of the state enterprises have to be converted, not even an experienced government with wide popular support would be strong enough to carry out a three-stage privatization program within a relatively short time. Consequently, the strategy for converting state enterprises cannot be based solely on this concept. There is a forceful argument in favor of accelerating privatization where market forces can develop fairly quickly. A strong

incentive based on equity is needed to fight the wastefulness that is widespread in state enterprises and large cooperatives.

The debate narrowed the differences of opinion as to who could be the new owners of the capital now belonging to the state. The participants in the debate generally recognized that demand for state enterprises is limited, and therefore the demand side of the capital market must be stimulated. The proposals called first of all for a tax system and interest rate policy that encouraged personal savings. There was also debate on how the personal savings now escaping into purchases of lots and homes could be used more effectively than at present to provide loans for private enterprises. There were also proposals on how the foreign banks that had made loans to Hungary earlier could be made interested in urging their customers to invest in Hungary.

Many advocates and organizers of American employee stock ownership plans and leveraged management buy-outs attended the meeting. They came out strongly in favor of spreading the use of such methods in Hungary. There was also talk of how the equity-holding role of insurance companies, pension funds, and nonprofit organizations—their similar role is practically dominant in the West—could be developed in the course of privatization. In the end the meeting adopted the more or less common standpoint that multichannel conversion would have to be the practice of privatization in Eastern Europe; it would not determine in advance the proportions of the individual modes of conversion, but would make such decisions pragmatically as it went along.

International Economic Relations

The view that Hungary must assume an active role in liquidating the present system of economic relations within CEMA gained general acceptance. Shipments by CEMA partners can be expected to decline, especially their shipments of raw materials. A large majority of the Western experts attending the meeting felt that Hungary would be able to obtain substantial long term loans on favorable terms from international economic institutions, to offset the difficulties that would accompany this process of transformation.

The views regarding our relations with the hard currency world ranged over a much broader spectrum. The Western experts speaking in the debate felt that it was unrealistic to expect the lending banks to remit all or part of their loans to communist governments. In the opinion of these experts, the present indebtedness would not be an intolerable burden for the country if it could be ensured that the growth rate of the GNP would remain higher than the growth rate of total borrowing. But there was also agreement, more or less, that the chances for such favorable conditions during the first few years after the elections, or after the commencement of the economy's transformation, are slim. Many speakers in the

debate admitted that, during those years, the country's burden of debt servicing would probably exceed the economy's potential.

In conjunction with the solution of this question, nevertheless, two different views emerged. According to the stricter view, during the mentioned period it will be possible to increase spending cuts in such a way that economic growth and the burden of debt servicing will not be in conflict, provided that total borrowing remains stable. According to the other view, the further belt tightening that the above strategy requires would politically destabilize the country to such an extent that it would be in the interest of the West, including Western lenders, to ensure that the measures for more spending cuts do not exceed a reasonable, yet politically still tolerable, limit. The Western powers will have to extend a helping hand to achieve this. Even among those who wanted mainly to aid Hungary, the unambiguous view was that active Western cooperation will be possible only under quite a few strict conditions that will have to be coordinated. Cooperation could occur either in the form of more lending or through the intensive influx of foreign capital, also involving technology transfers. In the latter case, most of the inflowing foreign capital would be used to relieve the country's debt burden.

Successful completion of the International Blue Ribbon Committee's work could produce genuine recommendations for the new Hungarian parliament and government, the entire Hungarian society, and the Western powers and the international banking community wishing to maintain good relations with Hungary, on how to launch the new Hungarian Republic's economic development most expediently and how to ensure that Hungary avoids further relegation to the sidelines.

Foreign Trade Projections for 1990 Uncertain

90EC0325A Budapest FIGYELO in Hungarian
1 Feb 90 pp 1, 6

[Interview with Imre Dunai, state secretary in the Ministry of Commerce, by Robert Becsky, place and date of interview not given: "One Cannot Tell What Tomorrow Has in Store"—first paragraph is FIGYELO introduction]

[Text] It is almost possible to use just one number, 550, to quantify the turnover of foreign trade last year. With only a slight difference, we were able to achieve trade surpluses of that many millions in both principal provenances and destinations of our foreign trade. Admittedly, one surplus was in dollars, and the other in rubles. Imre Dunai, state secretary in the Ministry of Commerce, explains the differences between the two results.

[FIGYELO] Signs of a slowdown in the world economy were already evident last year. According to preliminary estimates, the volume of world trade grew by not even seven percent, as compared to nine-percent growth in 1988; and the CEMA countries are in a serious social and economic crisis.

[Dunai] The quantitative data on the turnover of Hungary's foreign trade reflect only partially the effects of unfavorable factors. After all, the \$554 million trade surplus was achieved on the basis of a rising total turnover. This surplus was \$40 million higher than the year before, and it exceeded the 1989 plan by \$120 million. I regard the growth of Hungarian exports by about 40 percent during the past three years as significant.

[FIGYELO] What role did favorable world market prices play in this?

[Dunai] The mentioned 40 percent reflects the export volume's growth. Obviously, the economic boom created a situation that was more favorable for the expansion of exports. Our terms of trade improved annually by about 2.5 percent last year and also in 1988. But this time, unlike in previous years, we were able to take advantage of the market's favorable opportunities to expand exports and to attain higher prices. And we did so in a way that enabled us to increase our exports to developed Western countries, whose markets are the toughest to compete in, at twice the average rate. In the wake of this, the developed world's share of our dollar denominated trade rose from 75 percent in 1988 to 80 percent in 1989.

[FIGYELO] But the dark side of this growth, led by the world economy's boom, is that the structure of our exports remained unchanged. It is evident from the news bulletins of the Ministry of Commerce, for instance, that the export of metallurgical products last year was \$170 million more than in 1988.

[Dunai] Regrettably, the products of agriculture and the food industry, and of the material- and energy-intensive industries, invariably dominate our dollar denominated trade. In addition to the already mentioned metallurgical industry, agriculture and the food industry jointly increased their exports by \$140 million last year, and the chemical industry increased its exports by \$76 million. Meanwhile, engineering's exports declined by \$58 million, and light industry's exports remained essentially at the 1988 level. In other words, the trade surplus stems entirely from industries that cannot be regarded as the most favorable ones from the viewpoint of structural change. A \$50 million drop in the export of so-called special products, which incidentally was a gratifying sign of the relaxation of international tensions, also played a role in engineering's declining exports. Furthermore, the economic slowdown, particularly the softening demand for consumer durables, is felt here first. The basic reason, of course, is that these products are not sufficiently competitive, although there are also promising signs in some industries, such as the instrument industry.

[FIGYELO] Last year was the year of opening up our economy to the world economy. I wonder whether the steps toward liberalization have improved the Hungarian economy's competitiveness?

[Dunai] I would like to begin with the effects of liberalizing imports. Dollar denominated imports rose by 5.2

percent, which includes a 25-percent increase in the liberalized sphere at slightly lower prices. Especially gratifying is the increase in the proportion of machinery imports to 18 percent, from between 10 and 15 percent earlier. Last year's liberalization, which applied mainly to machinery and parts, is not yet perceptible in engineering's export performance. However, the abating shortages of parts and the improvement of cooperation among domestic enterprises already reflect some signs of improvement in terms of competitiveness. Proof of this is the 25-percent increase over last year in the volume of orders on engineering's order books.

[FIGYELO] Does the increase in the number of participants in foreign trade have any measurable impact?

[Dunai] More than 3,100 firms, including 600 private entrepreneurs, were exporting or importing at the end of last year. Unfortunately, in statistics it is hardly possible to measure the production-boosting and export-expanding effects of the many new businesses, most of them with fewer than 50 employees each. Output statistics do not cover this circle. But it is certain that the performances of the large enterprises are stagnating at best, hence the improvement in export performance is mostly due to the circle of new businesses. It is also difficult to establish this statistically because the smaller businesses are entrusting the financial and technical aspects of their foreign trade transactions to the established foreign trade enterprises, which usually makes for lower trading costs. But this also means that the foreign trade of such smaller businesses is not reported separately in the statistics.

[FIGYELO] Besides the liberalization of merchandise trade, have the conditions for attracting functioning capital from abroad also improved? What is your opinion of the debates on domestic regulation?

[Dunai] By our estimate, there is about \$600 million of functioning foreign capital in Hungary. To this we should add, in my opinion, the \$500 million that entered the country in the form of leasing. After all, that, too, is imported equipment.

I consider the concessions made to foreign investors to be important. On the basis of last year's experience, however, on the one hand it would be expedient to increase the minimum share of foreign-owned equity on the basis of which a joint venture may claim tax benefits. On the other hand, it would be advisable to limit the time over which tax benefits may be claimed, because a joint venture needs help mostly during its running-in period.

[FIGYELO] Ruble denominated trade cannot be said to have developed according to our intentions.

[Dunai] We expected exports to decline by seven or eight percent last year, but the actual decline was not even four percent in comparison with the year before. On the other hand, there was an eight-percent decline in imports, instead of the three or four percent expected. That is how

the 544-million-ruble trade surplus developed, instead of the 130-million-ruble trade deficit that was planned.

Domestic economic and political difficulties worsened the ability of our trading partners, mainly the Soviet Union, to make deliveries on schedule. Last year, in supplying us with petroleum, coke, coal, pine lumber, pulp, and other products, the Soviet Union fell short of the quantities that had been stipulated.

Changes in Ruble Denominated Exports in 1989

| Industries | 1989 Report | | 1989 Plan | |
|--------------------|--------------------|---------|--------------------|----------|
| | Millions of Rubles | Percent | Millions of Rubles | Percent |
| Engineering | -175 | -4 | -370 to -380 | -8 |
| Light & other | -62 | -8 | -80 to -85 | -11 |
| Agriculture & food | -72 | -6.5 | -80 to -85 | -7 |
| Chemicals | +40 | +4.5 | -10 to -15 | -1 to -2 |

Meanwhile, shortages developed in several commodity groups, especially on the Soviet, Bulgarian, and Polish markets. These shortages had a strong suctioning effect that met with the Hungarian enterprises' intentions to increase their exports and reduce their imports.

[FIGYELO] What do you expect from the commerce minister's decree ordering a case-by-case review of export license applications?

[Dunai] We have been attempting to influence ruble denominated exports through the licensing system even up to now. To reduce the trade surplus, however, from the middle of last year we held back export licenses that had not yet been issued to enterprises, even in the case of exports that had been included in the quotas. But in the absence of a domestic market and a dollar denominated market, it is not easy to use a licensing system as the means of holding back from exporting enterprises that are coping with financial difficulties. Earlier, for instance, the enterprises used up only a portion of the export licenses issued to them in a given year. In 1989, the proportion of issued licenses actually used rose above 90 percent, and the enterprises also exported significant quantities even without licenses. On the other hand, they cancelled the already placed import orders.

[FIGYELO] What selection criteria will you be using in reviewing the licenses?

[Dunai] There is no need to demonstrate how hopeless a task it would be for a ministry to attempt to screen the applications for export licenses on the basis of profitability criteria. What we can do is to attempt to keep exports in line with imports by controlling the issuance of licenses in accordance with what the quarterly trade balances show. Thus, the development of the trade balance is the selection criterion. This is manual control

in its most conspicuous form, but in the present situation there is no other way to avoid a trade surplus like the one we had last year.

[FIGYELO] A further slowing of the world economy has been forecast for this year, and inflation in Hungary is not helping to improve our ability to compete. What are you expecting for 1990?

[Dunai] Not yet a recession. But competition in the marketplace will probably intensify, and prices will develop less favorably. On the other hand, it is encouraging that our enterprises' chances of entering the Common Market are improving. This year we have to achieve a trade surplus of about \$700 million, at increases between eight and nine percent in the volume of exports and between five and six percent in the volume of imports.

On the other hand, thriving businesses, the stimulation of exports through various forms of competitive bidding, and an active exchange rate policy could offset the unfavorable effects of domestic inflation.

It is more difficult to estimate how ruble denominated trade will develop. We expect a trade deficit of 500 million rubles in 1990, at declines of 20 percent in exports and five percent in imports. But fulfillment of the projections is now even more uncertain than in years past, because one truly cannot tell what tomorrow will bring.

Securities, Exchange: New Law Designed To Protect Investors

Background, Summary

90EC0333A Budapest FIGYELO in Hungarian
25 Jan 90 p 15

[Article by Istvan Garamvolgyi]

[Excerpt] [passage omitted]

The Securities and Exchange Law

Only two years have elapsed since December 1987, when 22 banks and financial institutions agreed to cooperate on stimulating the offer and sale of securities to the public, and trading in securities. One manifestation of this cooperation was the institution of trading days. The first trading day was on 19 January 1988. We mention this date because two years later to the day, on 19 January of this year, the National Assembly's Planning and Budget Committee considered a draft bill on offering and selling certain securities to the public, trading in such securities, and the Securities Exchange. This bill is included in the legislative program of the National Assembly's session that will be held in the last week of January. The Planning and Budget Committee's report indicates that the bill's passage is likely.

In conjunction with the future Securities and Exchange Law, one might ask why the bill's drafting, introduction,

and passage have preceded the enactment of other no less important banking legislation, notably the Central Bank Law and the Banking Law? The explanation is that, from the very beginning, spontaneous organization—building from below, so to speak—has been typical of this financial sector in Hungary: Instead of waiting for support and encouragement from the outside or from above, the players have labored ceaselessly to expedite matters. With due consideration for the experience gained in foreign countries, work on drafting a conceptual plan for the development of a securities market and securities exchange began in the spring of 1988, when inflation was producing extremely unfavorable market conditions. Also in 1988, government agencies were briefed on the conceptual plan. The past year was actually the period of preparing and elaborating the statutory regulations, and of drafting the legislative bill. This work, which also took into account the comments of experts from the World Bank, ended in late autumn of 1989, and the bill awaited inclusion in the National Assembly's legislative program.

The domestic securities market is in a stage of development. By the end of last year, the combined total face value of issued bonds exceeded 28 billion forints, and that of issued stocks, 100 billion forints. The minor disorders—they were exceptional rather than typical—in conjunction with stock issues, which play the key role in the movement of capital, indicated that the time was ripe to regulate by statute the offering and sale of securities to the public, and also the two securities-related institutions, namely the Securities Exchange and the State Inspectorate of Securities. From among the provisions of the future Securities and Exchange Law, on this occasion we will emphasize the relationship between the securities market and economic openness.

A basic prerequisite for offering to sell securities to the public is the publication of a prospectus and of an offer that have been approved by the State Inspectorate of Securities and that permit a realistic evaluation of the issuing company's economic and financial situation, and of the investor's risk. To make a meaningful evaluation possible, the company that wants to float a bond issue or a new stock issue must have actually been in business for a specified period of time. The most important part of the mandatory prospectus is the disclosure of the company's business activity supported by data, the quarterly and annual financial statements that have been audited by a certified public accountant. Economic openness also requires continuing disclosure, and the law imposes on issuing companies the obligation of regular annual reporting. To promote the spreading of corporations, the law also allows corporations without legal predecessors to offer stock to the public; but if such corporations wish to increase their capital stock, they must have been operating successfully for at least a year and must present copies of their prospectus to potential investors. Incidentally, the obligation to disclose pertinent business information also applies to companies that already have issued securities outstanding: They have until 30 June

1990 to publish the prospectus that the law requires, and thereafter they will be required to report annually.

Legislative Action

90EC0333B Budapest HETI VILAGGAZDASAG
in Hungarian 3 Feb 90 p 76

[Article by Tamas Rusznak: "Securities Law Enacted: First Line of Defense"—first paragraph is HETI VILAGGAZDASAG introduction]

[Text] The Radius Hungaricus scandal of recent weeks practically played into the hands of those experts who had been urging with growing impatience that the National Assembly enact the Securities and Exchange Law. Before even more people blamelessly invested their hard-earned savings in securities "about which no information was available," at least the more important safeguards that would protect investors had to be passed into law.

The legislative program for the National Assembly's session last week included a bill on offering and selling certain securities to the public, trading in such securities, and the Securities Exchange. On the agenda it hid modestly between a bill on the use of secret state security devices and yet another bill modifying and amending the Land Law. The National Assembly passed the securities bill into law in record time, without any amendments or debate. Thus, in spite of its importance, the Securities Law received far less attention than the timely political issues included in the current session's legislative program. Yet this law, considering its economic importance, should have merited far more public attention.

In the series of laws enacted in Hungary since 1945, this is the first real "consumer protection" and fair competition law that protects investors in a newly developing area: the securities market. The law sets as its objectives the establishment of a clear and open market and the introduction of rules to ensure fair competition. Although it has not taken root in public opinion as yet, in professional circles the realization is already commonplace that the securities market's development and its operation according to clear and unambiguous rules are indispensable if the capital market is to fulfill its economic role, and if privatization—the economic structure's transformation that everyone has been pressing for—is to take place.

The law focuses attention on the two most important types of securities, on bonds and stocks, common negotiable instruments that embody a lender-borrower relationship and the rights of membership in a corporation, respectively. It sets rules for the issuance and sale of such securities when they are offered to the public; in other words, when it is not specified in advance who may subscribe to or buy the given securities.

In such cases there is presumably a significant "distance" between the issuing company and the investor who is risking his money. In the interest of protecting

investors and obtaining a realistic evaluation, therefore, the issuing companies must be required to disclose the information that makes possible the evaluation of the investor's risk or the continuous determination of the securities' value (price) if they have already been issued. The law's provisions imposing this obligation represent an enormous change in Hungarian practice, where up to now all essential items of information influencing the prices of securities have been regarded as business secrets, to be kept from investors and market partners alike.

The drafting of the legislative bill, of course, was not so free of debate as was the bill's passage in Parliament. The bill's opponents argued that the securities market's development had just begun, and therefore a law approximating the international regulations modeled on developed markets could set back the Hungarian market's development. But the bill's supporters took the standpoint that the absence of regulation in Hungary, the resulting uncertainty, the possibility of manipulation, and the lack of information harbored the danger that one or two loud scandals or bankruptcies could undermine the investors' not-too-firm confidence in securities for a long time, and they would choose other investment opportunities that would be less progressive from the national economy's viewpoint.

By no means minor is the consideration that the foreign investor is accustomed to receiving detailed and thorough information, and he would not want to gamble on shares in Hungary, either. And it is important to him how he will be able to resell his purchased shares in the secondary market, to recover his capital.

Even so, the law, taking the domestic economic environment into account, was forced to make significant concessions on several points. According to accepted international practice, for instance, new corporations are founded as closed corporations, and only after they have been in business for a specified period of time—ranging from one to five years—are they permitted to increase their capital stock with new issues offered to the public. A new corporation can only make promises but cannot present any information in support of its operations, because such information is, of course, unavailable. But in Hungary, where institutions for the capital financing of new businesses are completely lacking at present, a rule prohibiting the founding of new corporations as open corporations would have halted almost entirely the formation of new corporations.

There was also sharp debate over whether the banks should continue to organize the floating of issues and to handle the sale and purchase of securities. In other words, whether so-called money market (or short term lending) activity and capital market (or long term investment) activity should be combined. Or should we adopt the British-American practice that prevails in most of the world: The banks are active only in the money market, while capital market operations are handled by brokerage houses that are separate from the banks.

The Hungarian banks already in the market argued that their considerable capital is necessary to maintain liquidity in the securities market—i.e., continuous opportunity to buy and sell securities—and that at present only they have the infrastructure (network of branches, specialists, etc.) essential to the market's normal operation. In the end, nevertheless, the bill's sponsors opted for the separation of the money and capital markets.

The conflict of interest that exists between the banks' traditional lines of business—the holding of deposits and lending—and trading in securities is evident from the fact that most Hungarian banks are showing practically no interest whatsoever in the securities market. The three independent brokerage houses, as opposed to the 24 banks, now account for a substantial proportion of the trading volume. The separation of the monopolistic Hungarian banks with their interlocking share ownerships on the one hand, and the traders in securities on the other hand, will also provide a better chance for fair competition.

But the dog's bark is worse than its bite: The law that goes into effect on 1 March allows a three-year transitional period for the establishment of brokerage houses that are separate from the banks. During this period it will also be possible to evaluate the gained experience, and perhaps to amend the law, because—in the present process of radical social and economic transformation—probably no law could claim to be immutable.

Personal Savings: Reasons for Decline Analyzed

90EC0325B Budapest FIGYELO in Hungarian
1 Feb 90 p 9

[Article by I. W.: "Savings, What Will Become of You?"—first paragraph is FIGYELO introduction]

[Text] A news conference at the beginning of each year has by now become a tradition at the OTP [National Savings Bank], and the bank also held one this year. There the journalists were briefed on how the population's money relations developed in 1989, on the various changes in interest rates, and on the OTP's new business initiatives. The journalists were told, among other things, that the total of personal savings deposits has been declining steadily since 1986. In addition to presenting the more important data, we will attempt to outline the underlying causes of the decline in personal savings.

Deposits at the end of 1989 totaled 235 billion forints, an increase of 1.2 million forints over the 231 billion forints at the beginning of the year. But actually there was no real growth: The deposits earned 28 billion forints in interest during 1989, which effectively means a drop of 24 billion forints in total deposits. This drop occurred despite the fact that the OTP, in competition with other banks, had increased the rates of interest it paid on deposits and various securities. The average interest rate reached 21.5 percent, which was slightly higher than the

inflation rate. In other words, the bank was paying real interest on personal savings.

So why did personal savings decline? The reasons were not mentioned at the press conference. To remedy this omission, we will attempt to answer this question in the following.

What may be regarded as the principal and general reason was that the frequent announcements of consumer price increases, and the wages and benefits expectations frequently outlined in advance, undermined the population's confidence in the forint. The population attempted various maneuvers to parry the inflationary price increases. There are at present numerous known forms of such maneuvers, and their common feature is that they lower the propensity to save.

It is likewise true that the development of real incomes in 1989, and the fact that wide strata of the population can afford to set aside hardly anything from their incomes, also played a role in the declining opportunities to save.

The practice of going on shopping trips abroad, in the wake of introducing passports valid for travel anywhere in the world, "unfroze" the savings held previously by the OTP in special purpose savings accounts, and these savings were converted into hard currencies, either legally or on the black market. Another well known cause of the foreign shopping sprees was that the planned restrictive customs and foreign exchange measures were announced in advance. The following facts clearly support the above statements. Sales of foreign currency rose considerably: The public bought 8.5 billion forints' worth of foreign currency in 1.2 million transactions in 1988, but last year the OTP sold 17.3 billion forints' worth of foreign currency in 2.5 million transactions. In 1989 the public deposited 7 billion forints' worth of foreign currency in accounts with the OTP, and the total value of such personal deposits is now 23 billion forints.

Various rumors during the year about the freezing of foreign currency accounts also served to lower the propensity to save. Due to these rumors and to the liberalization that the foreign currency accounts provided from 18 September 1989 on, there was a significant outflow of foreign exchange, behind which we may assume a substantial diversion of forint incomes for such purposes.

Another factor that reduced personal savings was the publication of the proposed tax treatment of the interest paid on home mortgage loans. As a result, there was a sudden jump in the repayment of long term home mortgage loans on favorable terms.

Presumably the upsurge in establishing new businesses also depleted personal savings.

OTP management believes that higher annual interest rates and additional forms of savings will cause personal savings deposits to grow in 1990. The interest rate on personal giro accounts has been 14 percent per year

already since 1 January, instead of the earlier 12 percent. As of 1 February, the bank's annual interest rates on time deposits will be a net 19 percent for one-year deposits, 19.5 percent for two-year deposits, and 20 percent for three-year deposits. If kept on deposit for at least five years, the savings accounts for youths, and for a new home or apartment, will be earning 22 percent annual interest as of 1 February, instead of the 18 percent up to now. If the depositors use their savings for purposes other than to solve their housing problems, the interest rate will be only 17.6 percent a year. To promote savings certificates, their interest rates have also been increased as of 1 January. As of 1 March, the OTP will be introducing blank savings certificates, so that customers may buy them in any amount desired. The basic denomination will be 100,000 forints, and any multiple of that amount may be purchased. The rates of interest on the bank's bonds are likewise rising. This year, for instance, bonds of the Savings Bank II series will be earning a premium of six percentage points, over and above the 12 percent interest. In 1990, certificates of deposit will be earning 18 percent interest plus a premium of six percentage points. As of 1 January, the interest rate on certificates of deposit redeemed during the year will be 1.5 percent per month, instead of the previous one percent. A new security, the OTP cashier's note, will be available on a subscription basis as of 15 January. It will earn 22 percent gross annual interest.

With the higher interest rates and the premiums, the average rate of interest in 1990 will rise by about six percentage points.

We are skeptical as to whether personal savings in Hungary will be able to increase overall. But it is commendable that the OTP is striving to transform itself increasingly from a "public authority" into a bank, and that it intends to cut for itself a suitable slice of the personal savings pie.

Entrepreneurial Development Fund Described

90EC0330A Budapest FIGYELO in Hungarian
1 Feb 90 p 8

[Interview with Deputy Finance Minister Istvan Nagy, place and date not given: "Multi-Billion-Forint Entrepreneurial Development Fund: No Demand for Mortgage May Be Made"]

[Text] Henceforth no one will be able to claim that the government only supports enterprises with words. It has very swiftly established the Hungarian Entrepreneurial Development Fund (MVA), which will have a budget of one billion forints in 1990. Moreover (as we can find out from Deputy Finance Minister Istvan Nagy) the Fund will even have much greater resources. According to plans, it can count on several billion forints, even during the first year of its operation.

[FIGYELO] It is your firm intention to establish the Fund by the end of January. What are its goals and tasks?

[Nagy] As FIGYELO reported last year, we have a program, already presented to the National Assembly, which is designed to accelerate Hungarian enterprise. In order to execute that program, we first of all need a significant amount of money and a mechanism to distribute it. The Fund's goal is to contribute to the rapid increase in the number of (primarily) small and medium-sized, as well as private and cooperative, enterprises, to the broadening of their activity, the growth of their capital strength, and the development of the infrastructure they need to operate. Through the Fund, the government could contribute to the strengthening of proprietary incentives in the national economy, the flourishing of the market, and the accelerating of change in the commodity structure.

[FIGYELO] Will someone at last pay attention to the views of entrepreneurs, according to which the private sector needs state support in addition to neutrality in the sectors and competition?

[Nagy] Newly started enterprises enjoy a certain protection even in market economies. The Entrepreneurial Development Fund will also focus primarily on assisting new enterprises, and in the course of its operation it will help in facing the risks involved. However, I hasten to add, it will not take on all the risks; after all, what would there be left for the entrepreneur? What makes him an entrepreneur, if not the taking of a certain risk?

[FIGYELO] According to the plans, what will the Fund's money be used for?

[Nagy] One of the important tasks, and perhaps the most frequent one, will be to participate in investment and take a percentage of the shares. The Fund will buy into new enterprises, thus contributing to their capital strength. However, the Fund will not do this directly, but through investment associations or organizations that specialize in investment; even, for that matter, through banks. The Fund itself could even establish such investment associations. In the case of already operating associations, the Fund will contribute to the investment base by subscribing to shares. Investment groups and banks may apply to use the Fund's resources. A major aspect of the competition is that the money to be received from the Fund should be augmented by as much of the applicants' own resources as is possible. Of course, it is also an important consideration that the entrepreneurs should have their own resources, however modest they may be.

[FIGYELO] Will the Fund represent itself directly anywhere?

[Nagy] True to its principles, the Fund will become a direct partner only in firms that perform useful activities for the enterprises. Among these may be such activities as the creation of industrial parks or incubators for new ideas, the founding of financial institutions designed to assist small enterprises, the development of entrepreneurial infrastructure, as well as organizations that advise, train, audit, or consult.

The Fund will behave as an investment firm; in other words, after a certain period, when the enterprise has been solidified, it will sell its shares at market value, respecting the preemptive rights of the enterprise.

[FIGYELO] How will the Fund be able to help small enterprises solve their credit problems?

[Nagy] The Fund will not perform its investment activities directly, but through banks and financial institutions. Financial institutions will be able to apply for the resources earmarked for this purpose. The Fund, charging a minimal handling fee or low interest, will open an account in the name of the winner, or winners, and place the money in that account. In exchange for this, the financial institution will be obliged to use its own resources to provide at least the equal amount for the sector involved, using those moneys only for the financing of entrepreneurs and for charging interest that is significantly lower than the prevailing rate. According to our conceptions, the financing banks or institutions should not be allowed to issue mortgages for the entrepreneurs' private properties. The average length of time that money is loaned for is five years, with a one- or two-year grace period. If the Fund's resources are augmented with hard currency it will be able to offer hard currency loans as well, and to call for repayment in forints.

These subsidized loans are available only to new enterprises and can be used only for developing capital equipment. Operational loans can be obtained at interest rates prevailing on the market. The Fund will also guarantee loans obtained from the Hungarian National Bank.

[FIGYELO] Do you think that you can win the support of the banks? After all, the many small loan requests can present considerable complications.

[Nagy] The account in question is of a considerable size. In addition, simplified loan requests will enable the enterprises to get these loans quite rapidly. We will try to keep administrative details to a minimum.

[FIGYELO] The most interesting and at the same time most unusual task of the Fund will be to offer assistance that will not have to be repaid. Who will be able to receive such "free" money?

[Nagy] Before we are overrun, let me hasten to announce that even though the Fund will also use the method of offering nonrepayable assistance, it will be limited to a very narrow area, cases that are most warranted and based on a well regulated decision process. We propose two main forms of such nonrepayable assistance: On the one hand, we would assist enterprises in making their way into the market, and on the other hand, we would contribute to the growth of resources held by other foundations and nonprofit organizations set up for the purpose of accelerating enterprise. In both cases, applications will have to be made directly to the Fund.

[FIGYELO] In the meantime, the Fund's money will be spent. How will you replenish the money?

[Nagy] Naturally, the Fund will have certain liabilities, such as the burden brought on by the regrouping of resources handled within the Fund, as well as the servicing of interest payments on the refinancing of loans. There will also be considerable personnel and material expenses related to the Fund's management and operation. Inevitably, we will have to establish an Institute of Entrepreneurial Development to handle the Fund's daily operation with a very modest staff; obviously, the expenses of such an institute will also be borne by the Fund. As I have said, the Fund will rely primarily on state resources, which will ensure its continuity. In addition to the approximately one billion forints that we have received this year, in the future we can rely on moneys reapportioned to us by the National Property Agency. The amount of money obtained from the privatization of state property, and thus recycled for the purpose of encouraging entrepreneurial development, may amount to a billion forints each year.

We can also count on resources of the National Institute of Entrepreneurial Development that may be used for encouraging entrepreneurship, which are also bolstered by the refinancing ability of the national bank.

[FIGYELO] The Fund is open; in other words, it can be approached by Hungarian citizens and foreigners, private and corporate entities alike. What other types of resources can you count on?

[Nagy] There have been some promises that we could also count on support from abroad. Some of the foreign assistance promised to the Hungarian Republic for similar goals will also contribute to the growth of the Fund. Naturally, groups representing special interests, state, social, and national organizations, and even entrepreneurs can also join the Fund's endeavors. What is more, their presence, even with symbolic amounts, is quite desirable: After all, members of the committee planning and controlling the Fund will be elected by the charter members. The 10- to 12-member committee should include members of interest groups, entrepreneurs, and supporters from abroad. Two or three persons should be sufficient to represent the state.

[FIGYELO] How many persons will make up the operating staff of the National Institute of Entrepreneurial Development?

[Nagy] In my view, 10-15 specialists could handle the tasks of operating the Institute, recordkeeping, developing, announcing, and adjudicating the applications, and taking care of matters associated with the administration of assistance. We would prefer if the Institute would undertake additional projects, and even become the intellectual center or chief coordinator of encouraging enterprise, and if it would advise the government on this issue.

This nonprofit organization would not only assist the government in preparing decisions, implementing deregulation, etc., but would also perform advising, training, and intermediary services benefiting the entrepreneurial sector.

[FIGYELO] Would the Institute become one of the many organs representing interests?

[Nagy] Not at all. The staff would consist of experts; they would have nothing to do with representing interests. Naturally, in the future it will not be sufficient to hypothesize the government's intentions to stimulate enterprise; therefore, we suggest the creation of a so-called consultative Entrepreneurial Council, under the leadership of the main program coordinators, the National Savings Bank (OTP), and the Ministry of Finance. Its membership should be made up of the involved state administrative organs, the organizations representing various interests, and representatives of the business and scientific spheres. Its task would be to organize the execution of the program for stimulating enterprise and supervise its implementation.

[FIGYELO] Entrepreneurs are anxiously awaiting governmental assistance. When will the Fund and the Institute start operating?

[Nagy] Preparing the Fund's documents will be completed within two or three weeks. We have forwarded the founding charter to everyone involved. We have begun negotiations with the banks and financial institutions. Our intention is to enable the Fund to receive clients the moment it is registered. It is possible to form the Fund's organization and technical parameters within a half a year. We are expecting organizations, entrepreneurs, and representatives of various interests to join us, so that we can establish the committee as soon as possible.

Let me add a remark here: Personally, I find it incomprehensible why the National Alliance of Entrepreneurs (VOSZ), the organization that was the loudest in calling for the start of governmental assistance, did not even respond to the invitation it received from us during the preparatory stages. It appears that it will remain isolated from the government-initiated Fund. I hope that I am wrong in making this judgement, because the participation of special interest representatives is greatly needed, and not just when the Fund makes its decisions. It is they who could best convey the news of the Fund's creation to those involved, the entrepreneurs themselves. Their organizational and advisory activities could be of key significance in the Fund's operation.

National Bank on State Property: Can Privatization Be Stopped?

90EC0334A Budapest *MAGYAR NEMZET*
in Hungarian 22 Jan 90 p 5

[Interview with Lajos Bokros, Hungarian National Bank managing director, by Laszlo Gergely: "Can State Property Still Be Saved?"]

[Text] Upon reading Hungarian National Bank [HNB] managing director Lajos Bokros' article in Wednesday's issue of *MAGYAR NEMZET*, one is led to believe that there is virtually no hope today that state property can be saved. We have asked him to expound on the ideas he expressed, starting with whether or not he believes that privatization can be stopped, and if so, whose job it is to stop it.

[Bokros] Today's Parliament exhibited a high degree of political maturity by consciously relinquishing sole control over the direction and content of property reform. At the same time, in view of its antimarket and antisocial manifestations, and also in the interest of retaining some decisionmaking options for the incoming parliament, we would have good reasons to put an end to the process of spontaneous privatization, which today is moving ahead with full steam. At the same time, however, the accelerating deterioration of our economic situation prohibits us from halting the process completely, for, besides bringing in foreign operating capital, it is still our only chance at speeding up our structural transformation. The solution lies in establishing a system of state institutions and resources that will ensure social influence and control over the property redistribution process, and in the reassertion of the state's proprietary rights over its vested assets in our enterprises. The most expedient way of going about this would be to set up a new institution, to be called the state wealth fund (ava).

No Bureaucratic Malaise

[*MAGYAR NEMZET*] Pardon my skepticism. We have had plenty of quasi-proprietors in the past, and now you want to create a new one, under a new name. Whom will this benefit?

[Bokros] Indeed, a bureaucratic "wealth ministry" would be no more effective in asserting society's proprietary interests than the branch ministries were before; moreover, by limiting the expert enterprise managers' freedom of movement it would in fact be a step backwards in the direction of a bureaucratic state economy, which we have all hoped was already a thing of the past. This could indeed be a cause for skepticism. I want to assure you, however, that no one intends to create such an institution. I firmly believe that we can establish a state wealth fund that embodies state property in the form of a central institution in such a way so that it can effectively represent society's proprietary interests without becoming a bureaucratic malaise that hinders our system of economic organization.

[*MAGYAR NEMZET*] What guarantees are there, in your opinion, that we can avert such a malaise?

[Bokros] The state wealth fund will not become another ministry if, as in the case of the State Audit Office and hopefully shortly also of the HNB, instead of being compelled to function within the economic policy making establishment, it is allowed to operate outside of it, under the direct control of Parliament. By necessity, every government's primary concern is to represent

short term economic—budgetary—interests. The same is true for the branch ministries under its control. To make things worse, the main duties of the latter are, for the most part, inconsistent with the requirements of effective property management, hence by their very nature they are incapable of taking advantage of any proprietary rights they may have with a view to market efficiency. If, on the other hand, the state wealth fund were placed directly under the control of Parliament, then its sole responsibility would be to ensure that state property is utilized in an economically rational and socially acceptable manner, without the hindrance of any kind of short term economic pressures or bureaucratic internal conflicts of interests. The wealth fund thus would be a state, but not a state administrative proprietor.

[MAGYAR NEMZET] So it will simply do as it sees fit? For without the proper laws...

[Bokros] The state wealth fund can only function properly if its activities and orders of procedure are governed by a separate law which specifies the circumstances under which state property may be sold and privatization techniques may be employed. Today we have nothing in place that would limit the practical proprietary activities of the existing branch ministries in this regard, nor are there any regulations that apply to the proprietary decisions of enterprise councils. Their activities, therefore, cannot even come close to optimally serving the interests of society. In contrast, a properly drafted proprietary law could turn the state wealth fund into an effective instrument—and nothing more than an instrument—of property reform.

[MAGYAR NEMZET] Are you saying then that the wealth fund will not have any economic functions?

[Bokros] That is right. It will not become involved in selling, even in the case of properties belonging to enterprises that have been transformed without consideration for property reform. One of the main guarantees of effective state property management is to have so-called secondary property management institutions with whom the wealth fund will be required to sign an agreement granting them the right to sell certain portions of its assets. These secondary property managers will openly compete for the right to sell property, and will fulfill that function via contracts regulated in detail by law. It is important to note that the enterprise councils themselves will also be able to become property managers; in other words, we are not talking about a campaign to exclude them from the process.

[MAGYAR NEMZET] Theoretically, by a certain date only the "office" will remain, as we will have no more unclaimed property....

[Bokros] The wealth fund cannot become a wealth center. As the years pass, with the help of an orderly property reform, the economic units under its control will gradually be turned over to their eventual owners. The most important, legally prescribed function of the fund will thus be to implement the property reform and

to facilitate privatization in accordance with the guidelines and schedules to be laid down by the newly elected parliament. As a result, the state wealth fund will become gradually depleted. Hence it is now that we have a tremendous need for it. On the one hand, because by representing and strengthening state property it will prevent the continuation of harmful, spontaneous privatization, and on the other, because it will be able to sell the properties under its control to their eventual future owners gradually, and in accordance with the expansion of the absorbing capacity of the capital market. For only under conditions of increased demand can business shares fetch a fair price.

With the Power of Founding Rights

[MAGYAR NEMZET] In the final analysis, one could interpret your proposal as a criticism of ministerial ownership.

[Bokros] The state wealth fund will be operating within the framework of a state, completely different from what today's branch ministries have been confined to until recently. The antimarket proprietary orientation of the past 40 years has been a direct consequence of the fact that during this entire period, the branch ministries' compasses have been pointing to the moves of a politically predisposed superbureaucracy and a party-state that has dominated the harmonization of economic interests. In a multiparty democracy based on parliamentary principles this will not be possible, as only market efficiency will be able to legitimize the state's proprietary role.

[MAGYAR NEMZET] It follows from what you have just said that in order to protect the state property which the proprietary reform aims to regulate, it is imperative to make immediate changes in certain key provisions of the state enterprise and transfer law as well. Do you have any recommendations in this regard?

[Bokros] Although the preamble to the law on the state wealth fund makes it clear that we must begin to separate the executive and proprietary rights of the state, the law itself is not very consistent on this point. Although the managing director of the wealth fund—whom I would prefer to call president as in the case of the audit office—is chosen by Parliament, in every instance it has followed the recommendation of the president of the government. It would be more practical to delegate this right to the president of the republic with the proviso that Parliament itself also be allowed to make personal recommendations. It would be similarly important to ensure that the organizational and operational rules of the wealth fund be also approved by Parliament and not the Council of Ministers, within the bounds of the aforementioned property law.

[MAGYAR NEMZET] According to the actual draft proposal, only the shares remaining with the enterprises that have been transformed according to the transformation law will be governed by the wealth fund. Isn't this a little confusing?

[Bokros] Of course it is, because it deprives the wealth fund from the outset of any say in influencing the transformation of enterprises controlled by enterprise councils, or in this case of the power of initiating such a transformation. It is imperative that we restore the proprietary rights of the state if we are to curb spontaneous privatization.

It Will Be Up to the New Parliament

[MAGYAR NEMZET] The enterprise managers are going to lose their clout, aren't they?

[Bokros] I would not suspend any of the transfers they have initiated, and I am certainly not suggesting that the enterprise councils be eliminated immediately. The purpose of the proposed amendments is solely to control spontaneous privatization which under today's regulations often entails a loss of property and socially uncontrollable property transfers.

[MAGYAR NEMZET] There is still a hitch, however: According to the enterprise law currently in effect, an enterprise which is under the general control of an enterprise council or workers' assembly can only be brought under state administrative control by a decree of Parliament.

[Bokros] This is not an ideal arrangement, for it does not allow Parliament to follow the progress of individual firms until they are already faced with a crisis. Anyway, this kind of monitoring should be the function of the money market, and the state's role should be governed by law. At the same time, it would not be correct to return this right to the government, for by doing so we would again only strengthen the positions of the branch ministries. The proper solution would be to take this right from Parliament and transfer it to a wealth fund which in every respect would be under its direct control. This, of course, would also require corresponding changes in the pertinent paragraphs of the enterprise law.

[MAGYAR NEMZET] So what you are suggesting is that we need to restore order without new property reform regulations?

[Bokros] The proposed amendments to the enterprise, transformation, and the recently submitted wealth fund laws would result only in the most necessary legislative changes that would be just enough to restore the fragile balance that existed before the implementation of the property reform. Their aim is not to overhaul the property reform; however, they will not allow its continued implementation in its present adverse and uncontrollable form. Naturally, before we can undertake a genuine property reform, we will need to have a comprehensive property law, and further amendments to other important provisions of our existing enterprise, transformation, partnership, and other laws. But this will be left up to the new parliament that will convene after the upcoming free elections. In order for the new parliament to be able to face up to this historical challenge, however, the existing National Assembly must also live up to its

historical destiny: It must protect society's property until society is in a position where it can make its own decisions.

Strike Motivation, Major Strikes of 1989 Analyzed

90EC0322A Budapest FIGYELO in Hungarian
11 Jan 90 p 4

[Article by Zoltan Meixner: "Strike Wave in Hunnia"]

[Text] Please, look over the attached list which, we hope, contains every incident of strikes that occurred last year. I do not know whether the 20 cases listed there are too many or not enough. I do not know, because in order to judge that, one would have to examine a number of factors. Briefly, I am thinking of the following:

- Are the methods available for the prevention of conflicts satisfactory?
- In society's view, is the degree of social tensions proportionate with the movements of employees?
- Who could tell us what the bases of this judgement are?
- To what degree do the special interests of trade unions influence the strikes?

This listing is as subjective as the judgement of whether last year there were too many strikes or too few. Knowing the economic situation and, of course, realizing that there was a decrease in the population's real earnings (exceeded in speed only by the shrinkage in the volume of production), those 20 strikes do not seem to be too many at all. One might say that people are "responsible" when it comes to the issue of work stoppage. Of course, it could also be that they simply realize: Even if there is a good reason to strike, whom are they striking against? After all, beyond demonstrating power, the main compelling reason for striking is to cause some damage. In short, a strike only makes sense if there is someone to strike against. (By the way, the list does not show how many people participated in these strikes. The reason for this is that often there are only broad estimates available. But even if there were precise figures available, they would hardly tell us how much damage, or, in loss-producing factories, benefit was caused by these strikes.)

Take, for example, the case of the Raba Works in Mosonmagyaróvár. The strike there gained its rationale from the fact that the plant's manager behaved as a (stupid) owner. In the end, this cost him his position. Or, let me recall the miners' strike that took place in the Mecsek region in late August 1988. (We can use that date as the start of the newest Hungarian strike wave.) In that case, the commissioner in charge of energy resources, as the representative of the proprietor state, immediately appeared on the scene, thus embodying "the enemy." On the other hand, whom are the workers striking against in factories that are run by enterprise councils? If the manager does not raise wages sufficiently, the most they can do is fire him, (life has become this rough nowadays).

Of course, the solutions are usually more subtle than that. Generally there are opportunities for compromise, which also quite often will lead to a wage increase. For the time being, let us not bring up the fact that, because of the soft price controls, the increases in wage costs are passed on to the consumers, thus increasing inflationary pressure. Inflation can be the source of strikes, and usually not (or not only) in the places where it was induced.

The situation is different in the mixed and private spheres, where there are also no strikes. And the reason there are no strikes there is that salaries are way above the average, in return for which employers expect a higher-than-average loyalty from workers. For example, they may expect workers not to be members of any trade unions or other interest representative organizations, unless they are organized by the employer. These people are prompted to be loyal not only by the high salaries, but also by the fear of being fired, which also tends to keep them quiet. The same fear also keeps quiet those workers who, because of their training and their place of residence, feel that their jobs are threatened and have little faith in the possibility of an easy new start. (After all, as we know, there are regions and economic spheres in this country that are more vulnerable to unemployment than others.)

Who are the ones who strike? The miners, for example. They are the primary losers in the present transformation. The reason for this is quite evident. Suffice it to say here that laborers in this category rightfully consider themselves to be members of a workers' aristocracy. For the very reason that the previous regime used the miners for its own legitimation, it was also deathly afraid of them. The miners still have certain illusions about how they deserve more and better conditions than other ordinary workers. And when they see that not only is this "earned privilege" disappearing, but their job security is disappearing as well, what else can they do? ... They strike. This may be an over-simplification; nevertheless, that is how things work.

Then the teachers strike; for the time being, mostly in the countryside. The reasons are evident: Salaries are despicably low, not only insufficient to maintain a way of life

befitting an intellectual (complete with books, theater, music, exhibitions, etc.), but having the effect of pushing teachers into the category whose fate is an accelerating impoverishment. At the same time, teachers are irritated because their responsible work in the creation of future generations draws neither material nor moral appreciation, aside from the repetition of empty phrases; moreover, their superiors attempt to control even the minutest details of their work in an authoritarian and nonexpert manner. The tremendous schism between principles and reality is well illustrated by the activity, or rather impotence, of the Grosz cabinet's minister of culture and his over-bureaucratized staff. In other words, it was the dark existential prospects and the hopelessness of their profession's disorganization that compelled educators to strike. In the liberalizing political atmosphere, this urgency came to the surface at the first opportunity.

The third group of strikers is made up of people who strive for the sovereignty of their production units. These "secessionists" believe that by achieving independence, their real or purported oppression will end and they will live better. In other words, their jobs will survive and their salaries may even increase. Striking is their way of fighting the powers which try to block their efforts. The most outstanding example for this is the strife between the Raba Works and Kuhne.

Finally, some people strike (or struck once) because they feel that the legitimacy of traditional trade unions must be strengthened. We are referring to the National Council of Trade Unions (SZOT) which, by calling a general strike on 17 August 1989, proved that it still has a considerable amount of power and mass support.

If, after all this, we once again ask whether in a country this size, whose economy is in such bad shape, the 20 strikes are too many or too few, the answer still evades us. It does not even help us to know that the number of actual strikes is only one-third of those instances when various representative associations at various workplaces made serious strike threats. One cannot say whether these 20 strikes are too many or too few, if for no other reason, because there are phenomena that are a thousand or ten thousand times as harmful as the strikes listed above, for example the slow down and withholding of performance, which are not announced, but are diligently practiced by a sizeable number of Hungarians.

Strike Chronology 1989

| Date | Place | Duration | Direct Goal |
|--------------|---|----------|---|
| 9 January | Enterprises and institutions in Szabolcs-Szatmar County | 10 min. | Warning strike protesting the drastic price hikes announced by the government |
| 12, 17 April | Gyomaendrod plant of the Koros Boiler and Machinery Trust | 2 hrs. | Enterprise sovereignty |
| 3 May | Cutters at the Dombovar plant of the "Hunor" Glove and Leather Goods Factory | 8 hrs. | Wage increases over amounts fixed in yearly contract |
| 10 May | Teachers at 19 grade schools and kindergartens (joined by the instructors and student teachers at Szekszard Teachers College) | 2 hrs. | 50% wage increase for the school system |
| 17 May | Gyomaendrod plant of the Koros Boiler and Machinery Trust | 2 hrs. | Enterprise sovereignty |

Strike Chronology 1989 (Continued)

| Date | Place | Duration | Direct Goal |
|--------------|--|--------------------------|---|
| 19 May | Grade schools in Baja | 1 day | Reorganizing the system of overtime pay |
| 1 June | Kaposvar high school | 1 day | 50% wage hike for teachers |
| 1 June | Kaposvar and Csurgo high schools | 2 hrs. | Solidarity with teachers at Kaposvar high school |
| 6 June | Ozd Rough Rolling Mill | 40 min. | Protesting security conditions that threaten workers |
| 29 June | Numerous places throughout Hungary | 2 hrs. | Against 30% increase in the price of cereal products |
| 26 June | Fertilizer plant of Pet Nitrogen Trust | 1 hour | Protesting security conditions that threaten workers |
| 17 August | Numerous enterprises throughout Hungary | 30 min. | Called by the SZOT and the Iron Workers Union, to protest the planned (announced) increase in meat prices |
| 30 August | Pecs | Several hours of protest | Marches protesting the proposed closing of uranium mines, as well as the growing insecurity of miners |
| 18 September | English Department, Eotvos Lorand University | 1 day | Improved working conditions; professional sovereignty |
| 28 November | Mosonmagyaróvár machine plant of Rába Works | 2 hrs. | The plant's independence |
| 6 December | Land Surveying Offices throughout Hungary | 1 day | Improved working conditions and higher wages |
| 6 December | Mosonmagyaróvár machine plant of Rába Works | 8 hrs. | The enterprise's independence |
| 20 December | Locomotive engineers throughout Hungary | 1 hour | Wage increase, higher shift bonuses, end to compulsory overtime |
| 28 December | Tiszaszalka plant of Hungarian Steel Goods Trust | 2 hrs. | The enterprise's independence |

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